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# Labour Market Measures in Greece 2008–13: The Crisis and Beyond

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**Thomas Moutos**



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# Introduction<sup>1</sup>

This report is an analysis of the main policy responses undertaken by Greece in order to deal with the labour market and social policy contingencies created by the need to correct the huge internal and external imbalances that the 2007–08 global economic and financial crisis laid bare. These imbalances were built over decades, but following Greece’s membership of the eurozone, they were masked by the plentiful access to credit at negative real interest rates which was afforded to both the public and private sectors.

Greece’s limited integration into the global value chain delayed the arrival of the crisis, and it was not until 2009 that Greek policymakers started becoming cognizant of the impending crash. The announcement by the newly elected Greek government in October 2009 that the projected budget deficit for 2009 would be 12.7 per cent of GDP (rather than the 5.1 per cent projection appearing in the 2009 Spring Commission forecast) was initially met with shock and opprobrium in Brussels and other eurozone capitals. The initial reaction of policymakers across the EU was that the risk of contagion was minimal, and that the right way to deal with the situation was to let Greece “swing in the wind” (Katsimi and Moutos, 2010). However, by April 2010 the manifestations of the Greek crisis were perceived as threatening the financial stability of the eurozone. In early May 2010 the contagion from the Greek crisis was indeed spreading across Europe, evidenced by the widening eurozone sovereign credit default swaps (CDS) and bond yield spreads relative to German bonds, the fall in equity markets and in the euro against major currencies. Moreover, the Irish, Portuguese and Spanish debt markets were becoming less liquid, and market participants started paying closer attention to the exposure of different banks to Greek, Portuguese or

Spanish sovereign debt. By this time policymakers had recognized the gravity of the situation, and a €110 billion bailout package – the so-called *First Adjustment Programme for Greece* – was offered to Greece by the EU, the European Central Bank (ECB) and the International Monetary Fund (IMF) (commonly known as the “Troika”). In February 2012 the Greek government agreed on a *Second Economic Adjustment Programme*. By that time, the loans that the Troika had disbursed to Greece amounted to €73 billion. In the *Second Programme* the eurozone Member States committed an overall amount of €144.7 billion (including the already committed or disbursed amounts for PSI<sup>2</sup> and bank recapitalization) for the next two years, while the IMF agreed to contribute a further €28 billion during the next four years (IMF, 2014).

Naturally, the official loans offered to Greece came with heavy conditionality. This included draconian cuts in public expenditure, large increases in taxes, and widespread structural reforms. The effects of these policies on the evolution and structure of key labour market variables since the crisis in Greece have been shaped by the peculiar characteristics of the Greek “development model”. For this reason this report begins by presenting in Chapter 1 some salient features of this model to serve as a helpful background for understanding the arrival of the crisis as well as the post-crisis labour market dynamics. Chapter 2 lays out the general picture for some recent changes in the evolution of the employment relationship in Greece, and then relates these developments to changes in employment protection legislation. An examination is also undertaken as to whether these interventions have changed labour market flows. Chapter 3 examines how the necessary fiscal consolidation interacted with the pressing need

1. Thomas Moutos is a Professor of Economics at the Athens University of Economics and Business, Greece. The author wishes to thank Catherine Saget for guidance and many helpful comments and suggestions, and Eugenia Fotoniata and Franciscos Koutentakis for data and comments.

2. PSI (Private Sector Involvement) was the euphemism used for the haircut on Greek government bonds held by the private sector in 2012. The nominal value of these bonds was approximately €206 billion, and the deal was structured so as to offer Greece a nominal cut of up to 53.5 per cent.

to provide social protection to the large parts of the population that faced dramatic declines in their living standards and access to social goods. The many changes related to the deregulation of the existing collective bargaining structure and of the institutions supporting the collective bargaining process are discussed in Chapter 4. The chapter also analyses the changes in the minimum wage institution, and documents the effects of all these

legislative interventions on the wages and living standards for different groups of employees across the private and public sectors, as well as on unit labour costs. The implications of these changes on poverty and inequality are also examined. Chapter 5 presents the various active labour market policies pursued during the crisis, and assesses their effectiveness. Finally, Chapter 6 summarizes the findings of this report.

# Structural features of the Greek economy and labour market

1

## 1.1 Macroeconomic developments

Greece, which joined the EEC (as the EU was then called) in 1981, experienced its fastest convergence, in terms of (real) GDP per capita, during the 1960s, when its GDP per capita increased from 43.9 per cent of that prevailing in the EU15 (countries) in 1960, to 63.6 per cent in 1970.<sup>3</sup> The fast catching-up process was maintained during the 1970s, and by 1978 the ratio had increased to 72.0 per cent. The divergence which followed in the next 12 years took the ratio to 57.6 per cent in 1990, effectively reversing the convergence process, and bringing the country back to 1968 as far as relative GDP per capita is concerned. In absolute terms, Greece's real GDP per capita in 1990 was about 75 per cent higher than in 1968. Greece resumed its convergence with the (rest of) eurozone-12 in 1995, when its GDP per capita was 57.7 per cent of eurozone-12<sup>4</sup> (figure 1.1); by 2009 it had reached 71.2 per cent, and, following Greece's Great Depression, in 2013 the country's GDP per capita relative to the eurozone-12 returned to what it was in the late 1960s (about 56 per cent). In terms of absolute levels, in 2013 Greece's GDP per capita was at about the same level as it was in 2000, involving a drop of 23.2 per cent from its peak in 2007.<sup>5</sup>

The large fluctuations in Greece's economic activity were reflected – with some lag – in the evolution of the unemployment rate (figure 1.2). It bears noting that the decline in the unemployment rate from 2000 to 2008 took place while real compensation per employee was increasing at about 2 per cent per annum, reflecting increases in (perceived) labour productivity and in domestic absorption (i.e. the sum of consumption,

investment and government spending). These developments in employee compensation and in the unemployment rate were also reflected in the movements of the adjusted wage share (i.e. compensation per employee as a percentage of GDP at market prices per person employed). As displayed in figure 1.2, the wage share was on a downward trend from the new century, but it remained above 60 per cent until the onset of Greece's Great Depression, then fell sharply to 54.6 per cent in 2013.

The early catch-up phase for the Greek economy – which lasted until the late 1970s – was mainly investment-driven, associated with large increases in labour productivity. From 1980 to 2005, labour productivity per employee for the business sector was growing at an (average) annual rate of 2.3 per cent per annum (Fotoniata and Moutos, 2010). The evolution of productivity per hour worked for the business sector (excluding agriculture and real estate) since 2005 is shown in figure 1.3. Productivity per hour continued to increase at a fast pace until 2008, and since then it has collapsed, and in 2013 it was 15.9 per cent lower than its 2008 level.

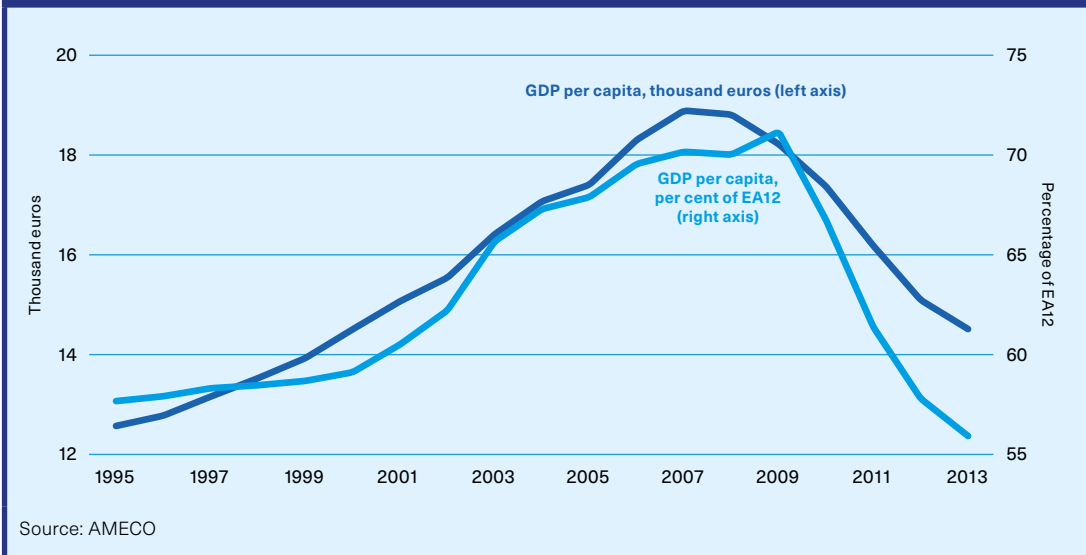
The investment rate (gross fixed capital formation) was 33.4 per cent of GDP in the 1970s (on average), and it declined first to 25.1 per cent in the 1980s and then to 22.3 per cent in the 1990s. There was a small rise to 23.9 per cent in the 2000s (until the crisis), and it has collapsed at a fast rate since 2008, being just 12.1 per cent in 2013 (figure 1.4). This implies that net (of depreciation) investment was negative in 2013 (in fact, since 2011 according to AMECO), indicating serious supply bottlenecks when there is recovery in aggregate demand. The post-crisis decline in the investment rate can be understood as the rational response to the decline in aggregate demand and to credit unavailability. What is more difficult to understand is the negligence by policymakers of the large, and continuous, decline in the gross national savings rate since the late 1990s (figure 1.4).

3. The EU15 aggregate includes Greece; given Greece's small size relative to the rest of the EU15, the numbers would not be substantially different if Greece was excluded. This practice is followed for all aggregate groups in which Greece was a member (e.g. eurozone-12).

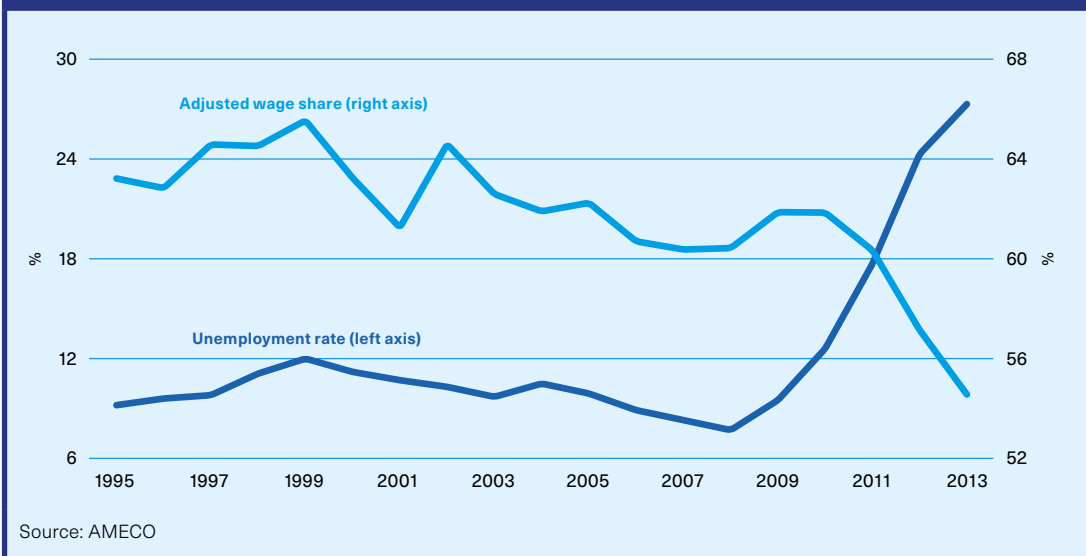
4. The eurozone average (eurozone-12) is used after 1991, since there is a break in the EU15 series due to the German reunification.

5. Maddison's (2010) data indicate that the drop in Greek GDP from 2007 to 2013 is two-and-a-half times larger than the drop Greece experienced from peak to trough in the 1930s.

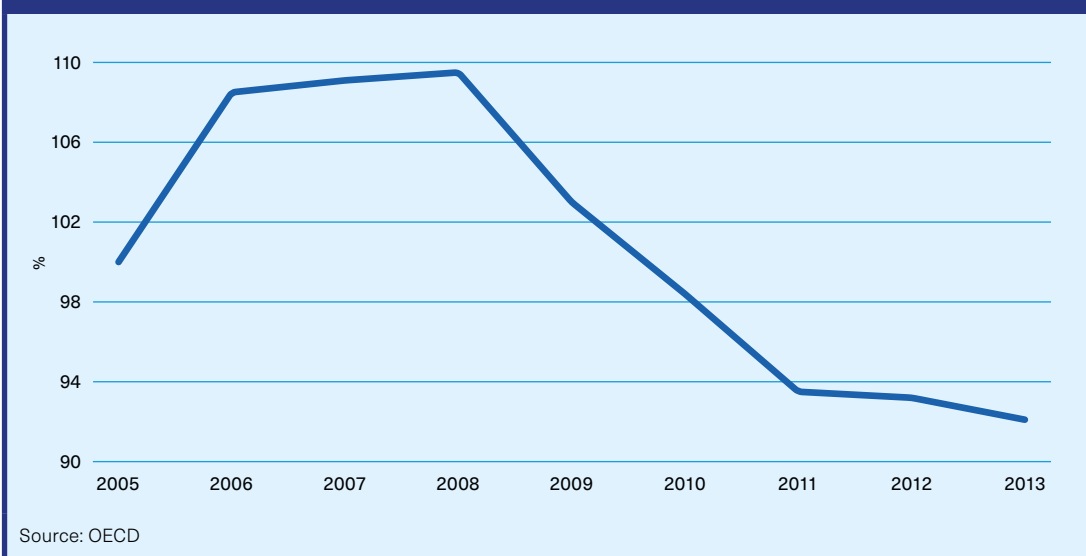
**Figure 1.1 Greek GDP per capita: level and relative (per cent) to eurozone-12**



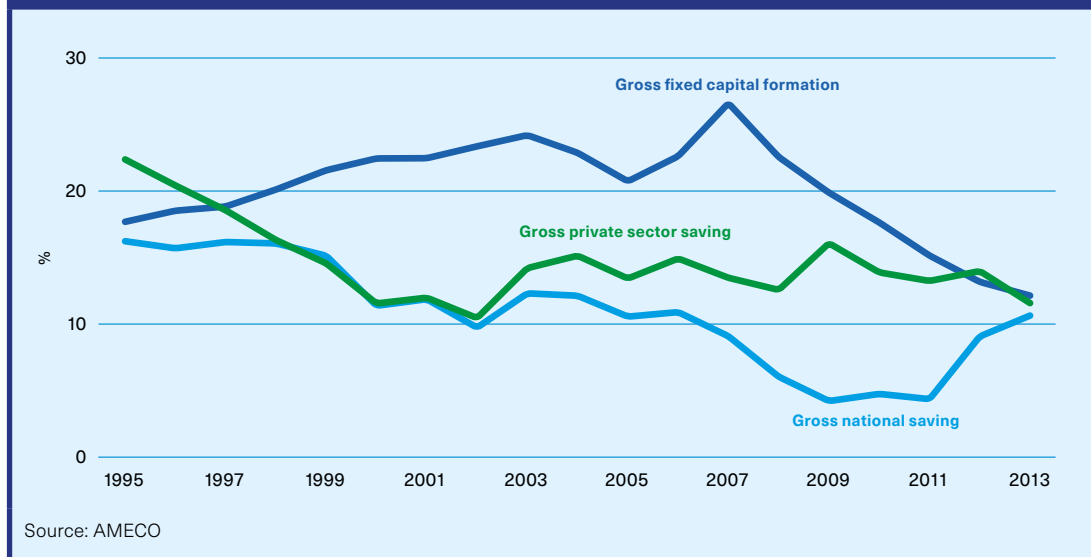
**Figure 1.2 Unemployment rate and adjusted wage share (per cent)**



**Figure 1.3 Business-sector productivity per hour worked (per cent, 2005 = 100)**



**Figure 1.4 Gross national and private savings and gross fixed capital formation (per cent GDP)**



The decline in savings has been far more pronounced and pernicious: the gross national savings rate declined by about 11 percentage points from the late 1990s to 2008–11 (from about 16 per cent to 5 per cent), it started recovering in 2012, and it reached 10.6 per cent in 2013. This implies that net (of depreciation) national savings has been negative for many years, i.e. Greece's national wealth (in the absence of valuation changes) has been decreasing since 2002,<sup>6</sup> and it was certainly still declining in 2013. It is notable that the huge drop in the national savings rate has not been associated with a rise in government borrowing, but it is wholly attributable to the decline in the private sector's gross savings rate (from 22.4 per cent in 1995 to 12.6 per cent in 2008). In fact, it appears that the private sector reduced its savings rate at the same time as the government was trying to decrease its own dis-savings (i.e. its budget deficits) from the mid-1990s to the mid-2000s (see Moutos and Tsitsikas, 2010, for more details). It is notable that the increase in the gross national savings rate since 2011 is solely due to the reduction in government budget deficits since the private sector's savings rate declined further.

Among the likely causes of the decline in the private sector's savings rate in Greece is the continuous decline in the share of agricultural employment (since farmers face greater income uncertainty than wage earners – especially government employees), the gradual extension of unfunded public pension plans to a larger part of the

population, the rise in social protection expenditure, and since the mid-1990s the excessive credit expansion. The latter was facilitated by domestic banks who found it profitable to borrow from abroad and extend loans to domestic households (in fact, all too often actively push) which, with the benefit of hindsight, should not have been given. These loans were used to expand consumption spending, part of which fell on domestically produced goods and services, and part on foreign-produced goods and services, leading to an expansion of the import share from 26 per cent of GDP in 1995 to 38 per cent in 2000. As a result, the deficit in trade in goods and services deteriorated sharply, from 6.6 per cent of GDP in 1995 to 13.6 per cent in 2000, and after a temporary improvement in the early 2000s, it widened further to 14.5 per cent in 2008 (figure 1.5). Consistent with these facts, there was a huge increase in net foreign borrowing<sup>7</sup> by the Greek economy, from 0.1 per cent of GDP in 1995 to 9.7 per cent in 2000, and to 16.3 per cent in 2008.

The widely accepted view (certainly within Greece, but also – albeit to a smaller extent – outside Greece) is that government budget imbalances and the resulting accumulation of public debt have been the overarching factor behind the amplification of the consequences of the financial crisis which originated in the United States and was transmitted to Europe through financial and trade links. Figure 1.6 depicts the evolution of government budget deficits and debt since 1995. It is certainly

6. This would be the case even if the depreciation rate was around 12–13 per cent. Eurostat assumes significantly higher depreciation rates, thus making the decline in Greece's national wealth far larger.

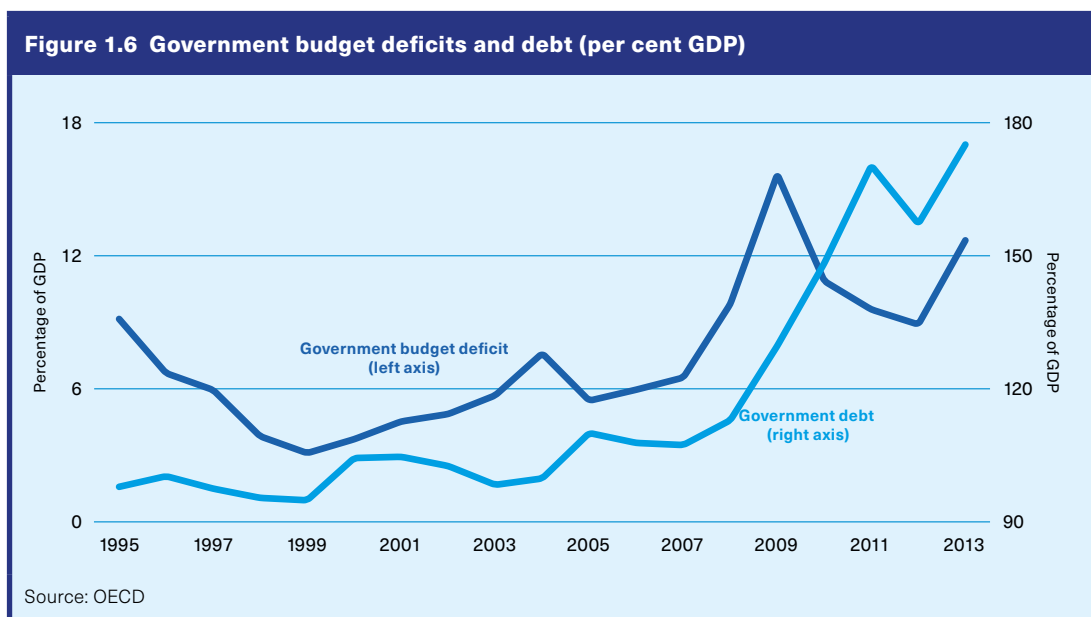
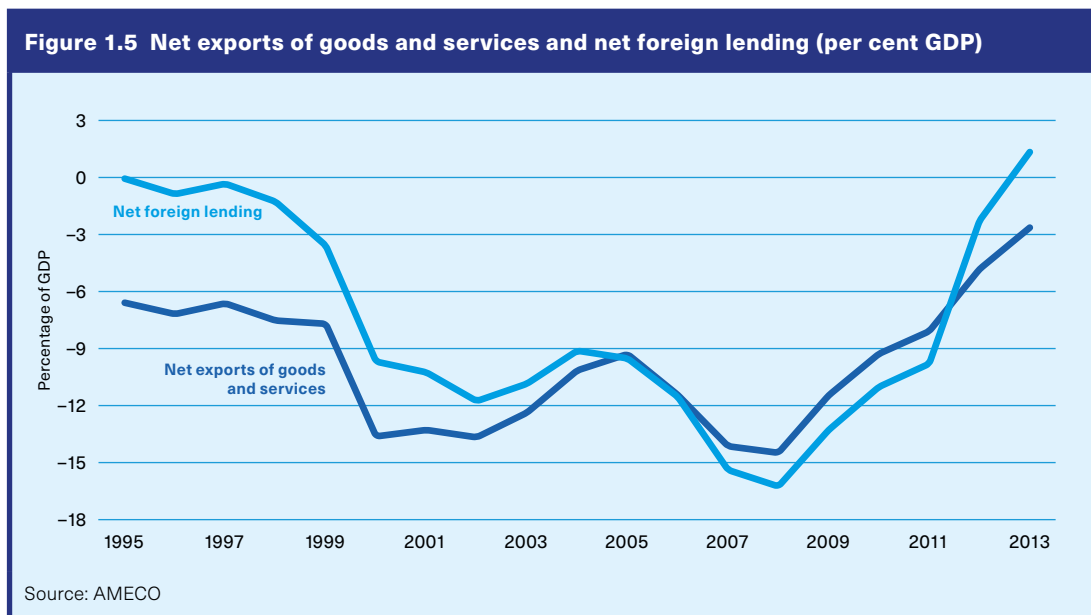
7. In the absence of international transfers, net foreign borrowing equals the current account deficit. For Greece, net foreign borrowing is smaller than the current account deficit due to the net transfers it receives from the EU.



true that there was not a single year from 1995 to 2008 during which the budget deficit was below the 3 per cent Maastricht limit. Moreover, the average budget deficit during this period was 5.9 per cent – a very large deficit considering that this was a period of fast growth. The onset of the global financial crisis manifested itself in Greece with a sharp reduction in GDP growth from 3.5 per cent (per annum) in 2007 to –0.2 per cent in 2008, and to –3.1 per cent in 2009. The normal automatic stabilizers came into effect (as well as politically motivated increases in government spending due to 2009 being an election year), and the budget deficit skyrocketed from a very high 6.5 per cent of GDP in 2007 (which was also an election year) to 9.8 per cent in 2008, and to 15.7 per cent in 2009. As a result, public debt, which appeared to have “stabilized” just below

110 per cent, increased sharply from 107.3 per cent in 2007, to 112.9 per cent in 2008 and to 129.7 per cent in 2009. According to standard narratives, these developments awakened international investors, who decided that the Greek public debt was unsustainable and went – in effect – on a lender’s strike, thus precipitating the signing of the first Memorandum of Understanding (MoU) between the Greek government and the Troika of lenders (EU, ECB, IMF) in May 2010.

Without wishing to dispute the validity of the above explanation of the Greek crisis as a crisis of public debt sustainability, this report argues that it would be impossible to understand the severity of the ensuing recession in Greece if the problem related only to unsound public finances. As alluded to earlier, it is believed that



the problem was mostly due to excessive foreign borrowing – as manifested in the huge current account deficits Greece was running since it was decided (in June 2000) that Greece would join the eurozone.

From 2000 to 2008 the Greek government was borrowing (on average) 6.0 per cent of GDP per annum. During the same period, Greece's current account deficit was (on average) 13.2 per cent of GDP per annum. These data imply that the private sector not only was unable to finance the government's budget deficit, but was also a larger net contributor to the country's net foreign indebtedness than the public sector (since the current account deficit is equal to the sum of public and private sector net borrowing). The upshot of the large current account deficits incurred after 2000 was Greece's net foreign debt position reaching 86 per cent by the end of 2009 (IMF, 2010). The implied foreign-debt service obligations of such a high net foreign debt were very large according to historical experience (EEAG, 2011).<sup>8</sup> (The interest payments made to foreigners were 3.8 per cent of GDP in 2009, and in the first months of 2010, market estimates for this figure had it rising to, at least, 5 per cent of the country's GDP in the near future, *under the assumption that interest rates would not rise.*) At that point, foreign investors started to question the ability (and/or willingness) of the Greek government to generate the resources required for debt service to foreigners, since it became clear that the Greek government faced a "mission-impossible"; on the one hand, in order to make government debt sustainable, the economy should grow so as to increase tax revenue; on the other hand, in order to make (the) net foreign debt sustainable, the economy should contract so as to eliminate the huge current account deficit. Under these conditions, the foreign creditors started demanding interest rates that embodied a high probability of default; this, in turn, forced the Greek government to seek official help, since paying the higher interest rates demanded by the foreign creditors made default in the near future a foregone conclusion.

This brought an end to the large expansion of Greek living standards (since 1995) – an expansion which was based on the availability of private foreign credit to both government and the private sector. This growth-on-(credit) steroids allowed government spending on public employee compensation to reach

8. The literature considers any net foreign debt in excess of 40 per cent of GDP as a strong warning signal regarding its sustainability (e.g. Calvo and Reinhart, 2001). In contrast, countries with very high levels of government debt but no net foreign indebtedness (e.g. Japan) have not faced debt crises.

12.7 per cent of GDP in 2009.<sup>9</sup> Wages in the wider public sector (e.g. public utilities) have grown significantly faster than wages in other sectors. The cumulative increase over the 1994–2009 period in (gross) nominal private sector wages (excluding the banking sector) was 137 per cent, whereas the cumulative increase in public sector wages was 291 per cent, and in publicly-owned enterprises 356 per cent (see Fotoniata and Moutos, 2010). In economies unable to borrow excessively from abroad – something which being part of the eurozone allowed Greece to do – such increases in public employment and wages would be associated with higher tax rates, thus crowding-out private employment (Malley and Moutos, 1996).

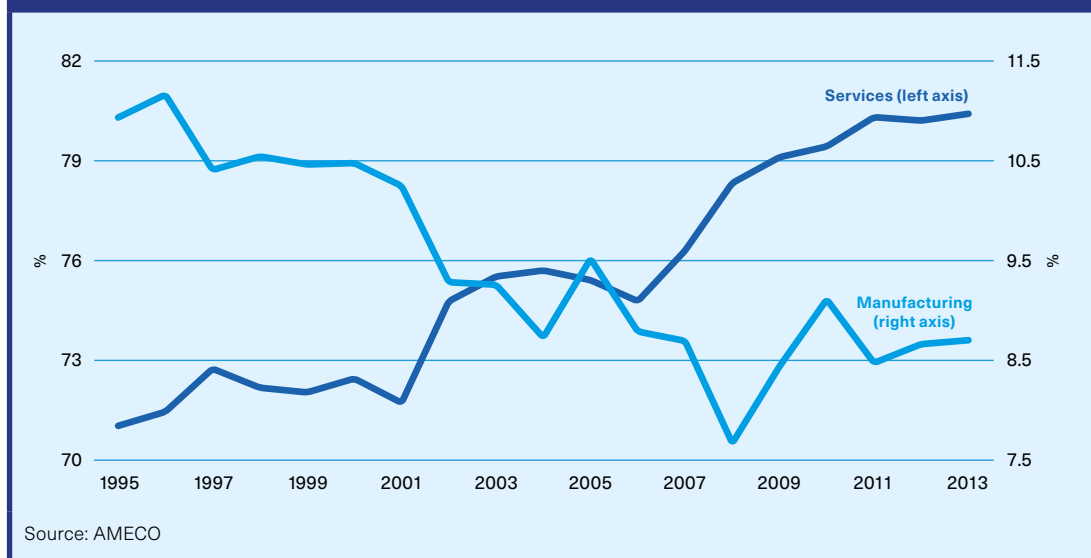
The seemingly unlimited access to credit, which the Greek economy enjoyed until 2008, allowed the private sector to develop along with the public sector, thus enabling private-sector employees to experience after-tax real wage increases as well as expanding employment opportunities. However, the rise in private-sector employment opportunities was concentrated in non-traded sectors, as exemplified by the substantial rise in the share of services in gross value added (figure 1.7): the (already high) share of services in gross value added increased from 71.0 per cent in 1995 to 78.3 per cent in 2008, and kept rising during the crisis, reaching 80.4 per cent in 2013. Figure 1.7 also shows the opposite movement for manufacturing's share in gross value added; from the (already low) 10.9 per cent in 1995, to 7.7 per cent in 2008; it partly rebounded to 8.7 per cent in 2013.

The very high share of services in the Greek economy has been interacting with some other unique features of the Greek politico-economic environment to gradually cement a constellation of vested interests which has both led to policy inaction on the way to the crisis, and has also made the required adjustment very costly. These unique (among the EU15 countries) features of the Greek economy before the crisis were (for more details see Fotoniata and Moutos, 2010; Buehn and Schneider, 2012):

- the highest female/male unemployment rate ratio (15.1 per cent for females and 5.4 per cent for males in 2005);
- the highest youth/ total unemployment rate ratio (25.3 per cent for those aged under 25, and 8.9 per cent for the population as a whole in 2005);

9. The corresponding figure for the Eurozone-12 average was 11 per cent in 2009. The public sector comprises the general government sector plus all public corporations including the central bank, but it does not include the former publicly owned utilities which had been privatized.

**Figure 1.7 Share of manufacturing and services in gross value added (per cent)**



- the highest rate of self-employment as a percentage of total employment (30.1 per cent in 2006);
- the highest percentage of firms with less than ten employees (97.5 per cent), the highest percentage of workers employed in these firms (56.8 per cent) and the smallest percentage of workers employed in enterprises with more than 250 employees (13.4 per cent);
- the highest rates of tax evasion and of the shadow economy as a percentage of official GDP (shadow economy estimated to be 27.5 per cent on average during 1999–2007 – see Buehn and Schneider, 2012, who use the Multiple Indicators Multiple Causes (MIMIC) estimation method).

The influence of the tax system has been paramount in making Greece’s supply-side structure tilt towards producing non-traded goods,<sup>10</sup> especially the differential incidence of tax evasion between the traded and non-traded sectors. This is because tax evasion is more prevalent in non-traded goods (i.e. in services such as medical and law services, car repairs, etc.) than in traded goods.<sup>11</sup> The implication of the above is that the effective after-tax relative price of the traded sector is smaller than what one would surmise by looking simply at the prices of the two sectors, thus attracting fewer resources in the traded

sector. As a result, traded-sector output decreases and a trade deficit appears. For as long as foreign financing is available, a widening trade deficit can coexist with increasing employment – especially in the non-traded sector; as mentioned earlier, this is indeed what happened in Greece. The upshot of the above is that, due to capital inflows, higher current account deficits can be associated with smaller budget deficits (for as long as foreigners are willing to provide the funding). More importantly, it suggests that non-benevolent governments may “achieve” an adherence to limits on budget deficits (such as the Stability and Growth Pact), for some years, by running huge current-account deficits. Once foreigners start being unwilling to finance these (private cum government) deficits, current account deficits (by necessity) improve and output and employment contract. This is indeed what happened in Greece.

The exceedingly difficult problem Greece faced in 2009/2010 was how to achieve an expansion of employment opportunities in the traded sector while the non-traded sector faced large declines in employment due to the austerity policies and the credit squeeze.<sup>12</sup> Some evidence for the significantly larger adjustment faced by the non-traded sector – which comprises mostly micro-enterprises employing up to nine workers – is attested by table 1.1, which shows that the net decline in the number of micro enterprises between 2008 and 2013 is about 200,000 – representing a decline of 24 per cent relative to their number in 2008. In contrast, the number of large enterprises (employing more than 250 persons) declined by 39 firms during the

10. Engler et al. (2009) find that Greece has the lowest share of traded sector output among the OECD countries when a broad definition of traded sector output is adopted.

11. It is well documented in the literature (e.g. Melitz and Treffer, 2012) that exporting firms tend to be larger than firms selling only in the home market, and tend to be more productive as well. It is also well known (e.g. de Paula and Scheinkman, 2009) that exporting firms usually transact with other formal-sector firms, such as financial intermediaries, and also need the appropriate documentation to export.

12. The problem would be less difficult if Greece had its own currency.

Size class	2008	2009	2010	2011	2012	2013
0–9	829 231	792 603	767 274	735 400	673 430	629 811
10–49	25 359	26 775	25 201	24 268	22 716	21 669
50–249	3 633	3 221	3 016	2 810	2 607	2 464
250+	462	483	485	457	442	423
Total	858 690	823 090	795 988	762 945	699 204	654 381
All SMEs	858 219	822 599	795 491	762 478	698 753	653 944

Note: Numbers may not add up due to rounding

Source: Eurostat

same period – a decline of 8 per cent. It is interesting that the largest proportional decline in the number of large enterprises was in the “information and communication” sector (from 32 to 18 firms, a decline of 44 per cent), a sector catering mostly to the domestic market and a traditional recipient of (implicit and explicit) government subsidies.

It can therefore be concluded that Greece’s Great Depression should not be interpreted as the downward phase of a normal trade cycle – sometimes induced by restrictive fiscal or monetary policies. It was rather the result of a serious misallocation of economic activity propagated by the coexistence of a differential incidence of tax evasion across sectors and the seemingly unlimited availability of foreign credit to both the public and private sectors. The implementation of policies designed to deal with short-lived employment declines of a normal trade cycle would thus be ineffective in situations involving large and permanent declines in employment of some (non-traded) sectors and requiring the expansion of other (traded) sectors.

## 1.2 Evolution of main labour market aggregates

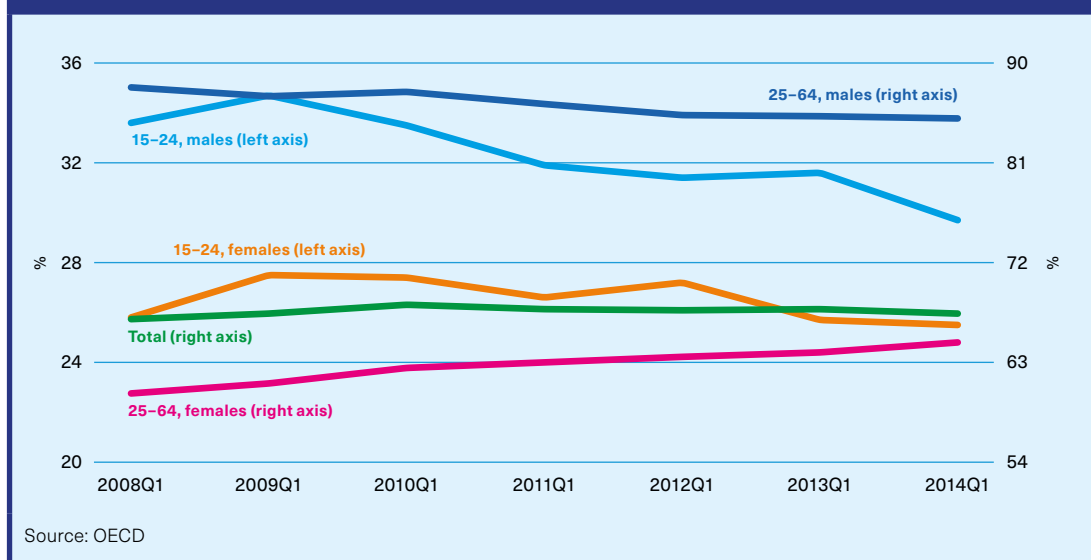
One of the salient features of the Greek economy is the differential labour market outcomes between males and females. Indeed, the pre-2010 labour market institutions, policies and norms were, in effect, a device intended to protect the male breadwinner. Since the negative aspects of such arrangements are well understood, it bears noting here a positive effect, i.e. that it ensured, by protecting primary earners, that unemployment did not directly translate into household poverty. This was because there was too little overlap between the unemployed and the poor; the former comprised mostly the spouses of employed men and young adults sharing the parental

home, while the latter concerned mainly people living in rural areas and the elderly (see Papatheodorou and Dafermos, 2010; Katsimi et al., 2014).<sup>13</sup>

Figure 1.8 shows the participation rates for both genders, as well as the total values for these variables, for persons aged 15–24 and 25–64, since the crisis. To understand the evolution of this figure, it should be noted that differences in participation rates between the sexes were enormous up to the early 1990s: in 1992, the participation rate for males was 76.4 per cent, whereas for females it was only 41.8 per cent. These differences were far larger than the ones observed in Northern European market economies, but very close to the ones observed by other Southern European market economies. By 2008, the participation gaps between the genders had closed considerably, mainly by the increasing female participation rates – to 25.8 per cent for those aged 15–24, and to 60.2 per cent for the 25–64 group – thus bringing the overall (15–64) participation gap to 24 percentage points (it was 34.6 percentage points in 1992). Since the crisis, differential developments in the participation rates between males and females can be observed: while the participation rates for males of both age groups have declined by about 3 percentage points, there was a significant rise in the participation rate of prime-aged (25–64) females by 4.6 percentage points, while the corresponding measure for the 15–24 group remained practically intact. This differential development between

13. According to Eurostat, the proportion of two-earner households in which both partners are working full-time was 21 per cent of all households (excluding students and those aged more than 65) in 2010 in Greece; the corresponding Eurozone-12 average was 16.5 per cent. In contrast, the proportion of two-earner households, in which one partner was working full-time and the other part-time, was 3 per cent in Greece and 11.5 per cent for the Eurozone-12 average. The proportion of full-time two-earner households was rising until 2008 in Greece, and has since declined due to the depression.

**Figure 1.8 Participation rates across gender and age groups (per cent)**



(mainly the prime-aged) male and female participation rates is probably due to the *added-worker effect*, i.e. the decision of females to enter the labour force in order to maintain family incomes in response to either job or wage losses suffered by the (usually) male primary earner. As result of increased female participation rates, the economy's total participation rate (both age groups and sexes) remained largely intact (it increased from 66.9 per cent in 2008 to 67.4 per cent in 2013).

The crisis, naturally, did not affect employment in all sectors symmetrically (table 1.2). Aggregate employment declined by 23.7 per cent between the first quarter of 2008 and the first quarter of 2014, but in two sectors it declined by more than 60 per cent (real-estate management: 65.1 per cent; construction: 62.4 per cent), whereas there was a sector whose employment increased (information and communication: 1.2 per cent). In general, employment in services (e.g. transport and storage, finance and insurance, public administration) fell by far less than in goods-producing sectors (e.g. mining and quarrying, manufacturing). Among services, it fell less in service sectors with a strong government presence (e.g. education, health) than in sectors where private firms dominated (e.g. retail and wholesale trade).

Greece always displayed large differences in employment rates among genders (in 1992 the employment rate was 72.3 per cent for males and 36.2 per cent for females). By 2008, there was some convergence in employment rates between the sexes, since the male participation rate increased slightly to 74.6 per cent, whereas the female rate increased by almost 12 percentage points, to 47.9 per cent (figure 1.9). The convergence in employment rates has continued since 2008, but it came about mostly as a

result of the far larger drop in the male employment rate (from 74.6 per cent in 2008 to 57.2 per cent in 2013) than in the female rate (from 47.9 to 40.1 per cent). To a large extent, these developments reflect the fact that male-dominated sectors (e.g. building and construction, car sales and repairs) were harder hit by the crisis.

The improvements in the integration of females in market activities since the early 1990s went in tandem with a large expansion of employment rates for persons with upper secondary and post-secondary non-tertiary education level qualifications. The employment rate for these persons rose from 52.3 per cent in 1992 to 61.2 per cent in 2008, but it still remained far lower than the employment rate for persons with tertiary education, which was 82.1 per cent in 2008 (the male employment rate for this educational group was 87.1 per cent and the female rate 77.1 per cent). On the other side of the educational spectrum, persons with less than a high-school diploma did not experience rising employment rates, possibly a result of the economy shifting from agricultural activities to the more skill-intensive service sector, and in 2008 the male employment rate for this group was 69.0 per cent and the female rate only 33.0 per cent. By 2013, all educational groups for both genders had experienced large declines in employment rates (figures 1.10 and 1.11). The largest declines were experienced by males with the lowest level of education attained, whose employment rate dropped by 21 percentage points. In contrast, the female employment rate for the same educational group declined by just 6 percentage points. Again, the difference in sectoral employment patterns may be responsible for this outcome, since the hardest-hit sectors were employing

Table 1.2 Employment across sectors ('000s)								
	2008 Q1	2009 Q1	2010 Q1	2011 Q1	2012 Q1	2013 Q1	2014 Q1	Change 2008Q1–2014Q1 (%)
Total economy	4567.2	4545.6	4446.0	4165.5	3785.0	3504.2	3483.7	–23.7
Agriculture, forestry & fishing	516.1	517.7	557.7	512.9	480.8	475.4	479.6	–7.1
Mining & quarrying	17.6	13.4	13.1	10.7	11.2	10	10.3	–41.5
Manufacturing	547.3	536.4	483.7	435.2	367.8	329.3	315.3	–42.4
Electricity & gas supply	37.4	31	27	24.1	25.1	28.7	28.7	–23.3
Water collection, treatment & supply	28.3	28.5	31.5	26.8	22.4	19.3	23	–18.7
Construction	398.1	370.4	339.6	263.6	214.5	171	149.6	–62.4
Wholesale, retail trade & repair of motor vehicles and motorcycles	828.8	850.8	792.7	780.3	687.2	634.9	621.1	–25.1
Transport & storage	213	211.2	216	200.4	184.6	175.2	175.6	–17.6
Accommodation	294.4	285.9	291.9	272.4	258.1	236.3	248.9	–15.5
Information & communication	73.4	87.5	90.7	83.7	73.1	76.6	74.3	1.2
Financial and insurance services	125.1	114.7	116.3	113.3	117.6	103.5	104.1	–16.8
Real-estate activities	8.6	9.2	7.2	4.8	5.7	2.6	3	–65.1
Professional, scientific & technical activities	232.2	243.6	229	218.5	219.5	198.6	193.3	–16.8
Administrative & support service activities	78	72.3	70.3	79.9	71	58.5	72.9	–6.5
Public admin & defence; compulsory social security	377.9	375.9	372.4	368.1	332.9	326.3	323.8	–14.3
Education	325.7	330.9	333.2	306.9	303.4	269.4	290.3	–10.9
Human health & social work activities	242.7	232.5	246.1	243.4	230.8	219.6	206.5	–14.9
Arts, entertainment and recreation	56.6	57.1	47.6	46.6	41.5	43	44.2	–21.9
Other service activities	92.2	90.9	87.2	87	76.5	72.5	69.3	–24.8
Private households with employed persons	71.7	84.2	91.1	84.9	59	52.3	48.7	–32.1
Extra-territorial organizations & bodies	1.9	1.5	1.8	2.1	2	1.1	1.3	–31.6

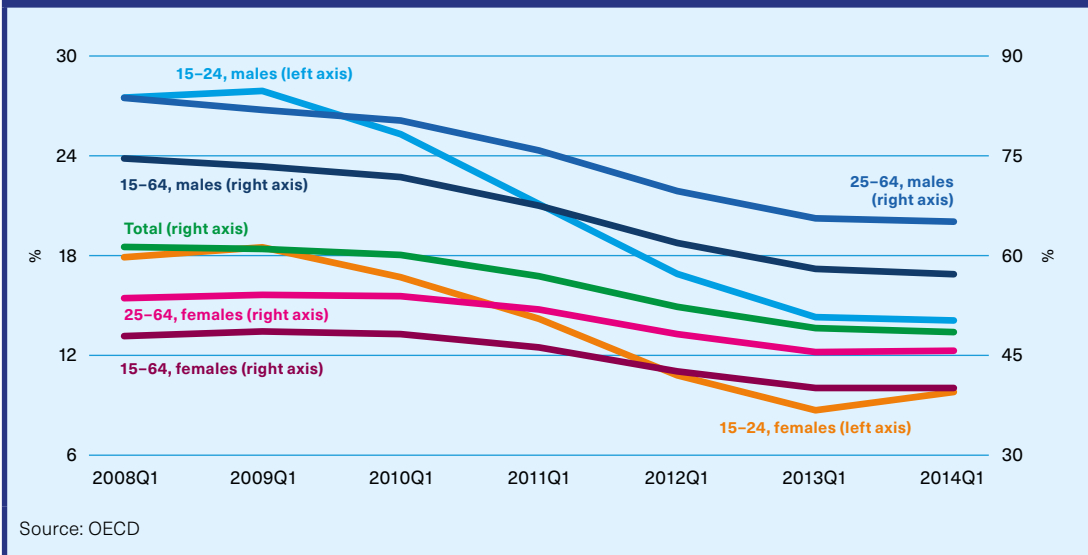
Source: ELSTAT and own calculations

males with low educational qualifications intensively. For persons with the highest educational levels, the decline in employment rates was similar across genders, possibly due to the intensive employment of both males and females with high educational qualifications by the wider public sector whose employment declined the least since the start of the crisis.

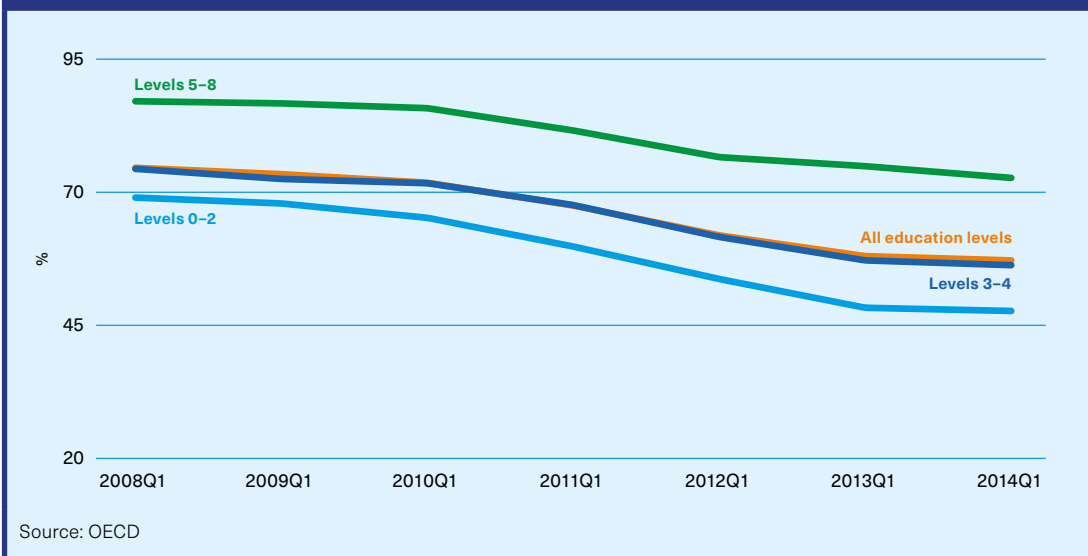
Until 2008, there was a large reduction in the unemployment rate for females with upper secondary and post-secondary education (levels 3–4), from 23.8 per cent in 1999 to 13.2 per cent in 2008. The reduction of more than 10 percentage points in the unemployment

rate for this group was the largest drop among the unemployment rates for all groups during this period, and it was brought about by the expansion of a service sector in need of a medium-skills workforce. (The second-biggest reduction in the unemployment rate was for males of the same educational category.) In contrast, the decline in the unemployment rate for females with below upper-secondary education was only 3.7 percentage points (from 16.2 to 12.5 per cent) during the same period, as the manufacturing and agricultural sectors, where they were mainly employed, started to decline. The crisis hit males with low educational

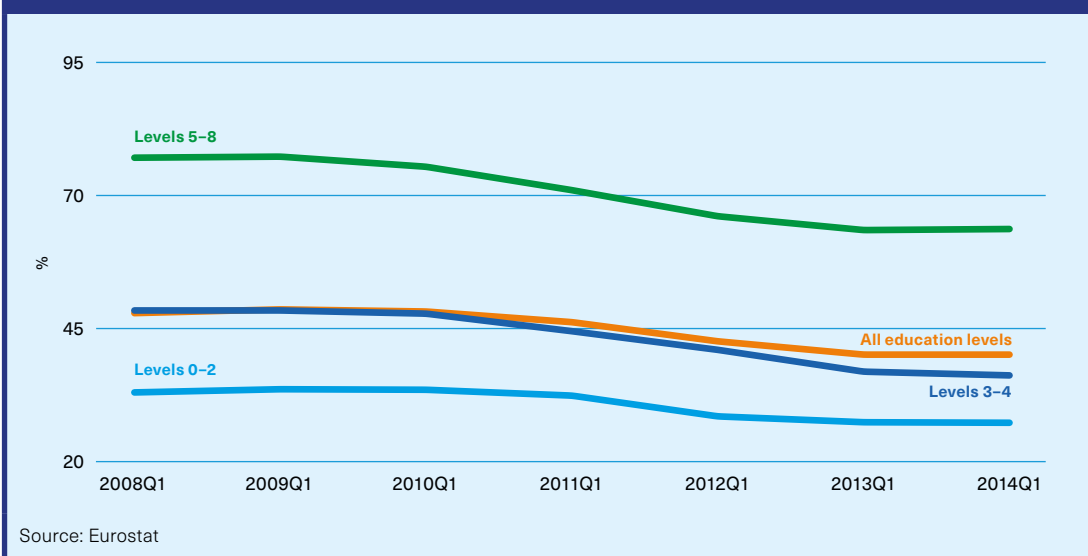
**Figure 1.9 Employment rates across gender and age groups (per cent)**



**Figure 1.10 Male employment rates by education level attained (per cent)**



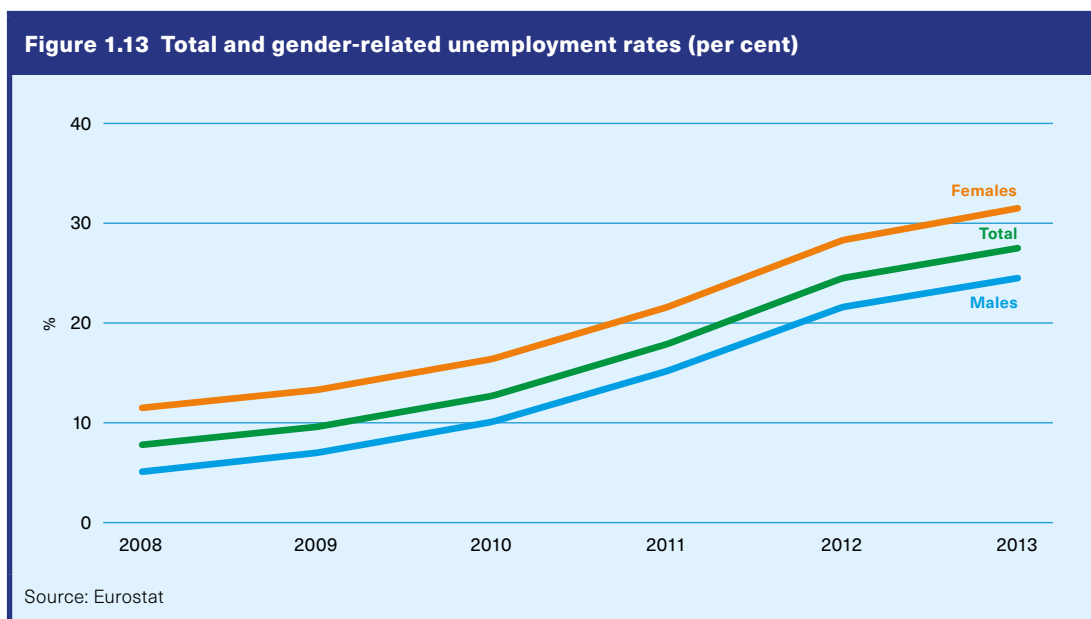
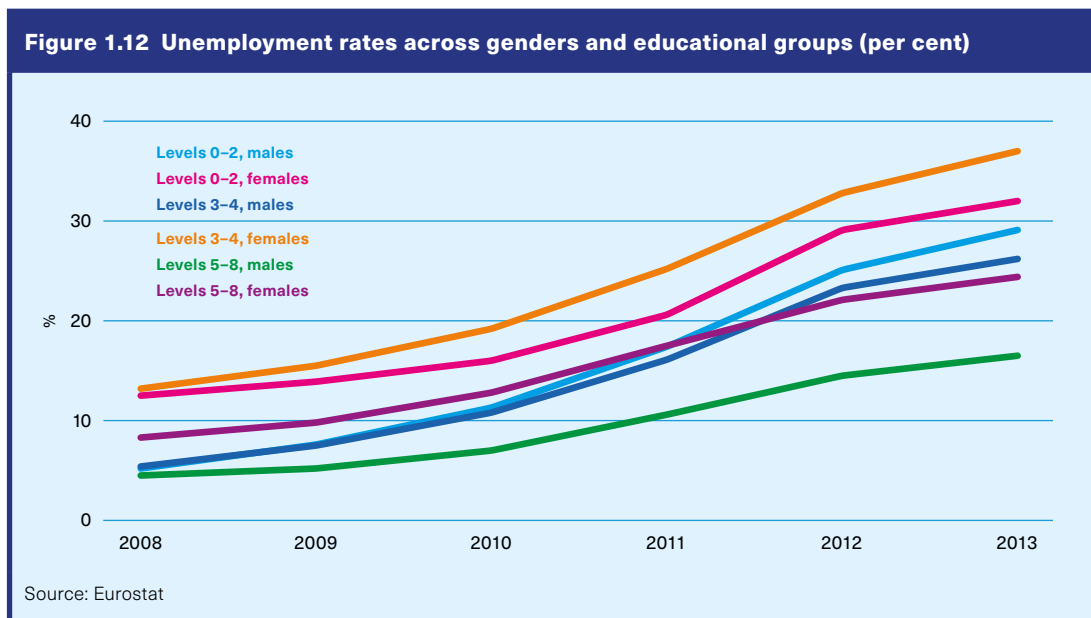
**Figure 1.11 Female employment rates by education level (per cent)**



qualifications the hardest: their unemployment rate increased almost six-fold (from 5.2 to 29.1 per cent) from 2008 to 2013 (figure 1.12), whereas the female unemployment rate of this group nearly tripled (from 11.5 to 31.5 per cent). Of interest is also the differential evolution of the unemployment rate for males with intermediate level qualifications and those with high: whereas in 2008 both groups had similar unemployment rates (4.5 per cent for the levels 5–8 educational group, 5.4 per cent for the levels 3–4 group), by 2013 the difference in unemployment rates had risen to almost 10 percentage points (16.5 and 26.2 per cent, respectively). This is just another reflection of the fact that the wider public sector employs persons with high educational qualifications. These developments have closed the gap considerably between the (overall) male

and female unemployment rates in Greece (figure 1.13); although both rates have increased noticeably, the absolute gap between them has not widened. Moreover, the proportional gap has been reduced considerably, i.e. in 2008 the female unemployment rate was 2.25 times as large as the male rate (11.5 vs. 5.1 per cent), whereas in 2013 the female unemployment rate was only 1.3 times as large as the male rate (31.5 vs. 24.5 per cent). In addition to the factors mentioned above, this closure in the (proportional) gap may reflect higher jobsearch among females due to the added-worker effect.

Table 1.3 displays the evolution of unemployment rates across gender and age groups. What is remarkable in this table is how low the unemployment rate for males aged 30–44 and 45–64 years old relative to all other





<b>Table 1.3 Unemployment rates by gender and age group (%)</b>							
<b>Gender and age groups</b>	<b>2008 Q1</b>	<b>2009 Q1</b>	<b>2010 Q1</b>	<b>2011 Q1</b>	<b>2012 Q1</b>	<b>2013 Q1</b>	<b>2014 Q1</b>
<b>Total</b>	<b>8.4</b>	<b>9.5</b>	<b>11.9</b>	<b>16.1</b>	<b>22.8</b>	<b>27.6</b>	<b>27.8</b>
15–19	28.1	33.7	33.5	56.4	63.3	74	71.6
20–24	22.4	24	30.2	37.9	51	57.9	54.6
25–29	14.1	14.8	17.8	26.3	35.7	41.1	42.4
30–44	7.4	8.6	11.1	15	21.4	26.1	26.7
45–64	4.4	5.5	7.4	9.9	15.1	19.6	20.3
65 +	0.8	0.9	1.1	2.1	3.1	7.4	12.6
<b>Males</b>	<b>5.6</b>	<b>6.9</b>	<b>9.2</b>	<b>13.5</b>	<b>19.9</b>	<b>24.9</b>	<b>25</b>
15–19	22.6	24.3	28.7	52.2	56.2	67.7	67.2
20–24	17.2	19.2	23.5	31.6	44.3	52.9	50.5
25–29	11.1	12.4	14.8	23.2	33.5	39.3	40.7
30–44	4.5	5.6	7.9	12.1	18.2	22.8	23.4
45–64	2.8	4.2	6.3	9	13.8	18.3	18.5
65 +	1.1	0.9	1.3	1.7	2.4	8.3	14.4
<b>Females</b>	<b>12.4</b>	<b>13.1</b>	<b>15.6</b>	<b>19.6</b>	<b>26.6</b>	<b>31.1</b>	<b>31.4</b>
15–19	36.3	46.6	40.7	62.7	73.8	83.8	76.3
20–24	29.1	29.9	37.9	45	58.3	63.7	59.3
25–29	18	17.7	21.4	29.9	38.3	43.2	44.2
30–44	11.4	12.4	15.1	18.8	25.4	30.2	30.8
45–64	7.1	7.6	9	11.3	17	21.5	22.7
65 +	0	0.7	0.7	3	4.7	5.1	7.9

Source: ELSTAT

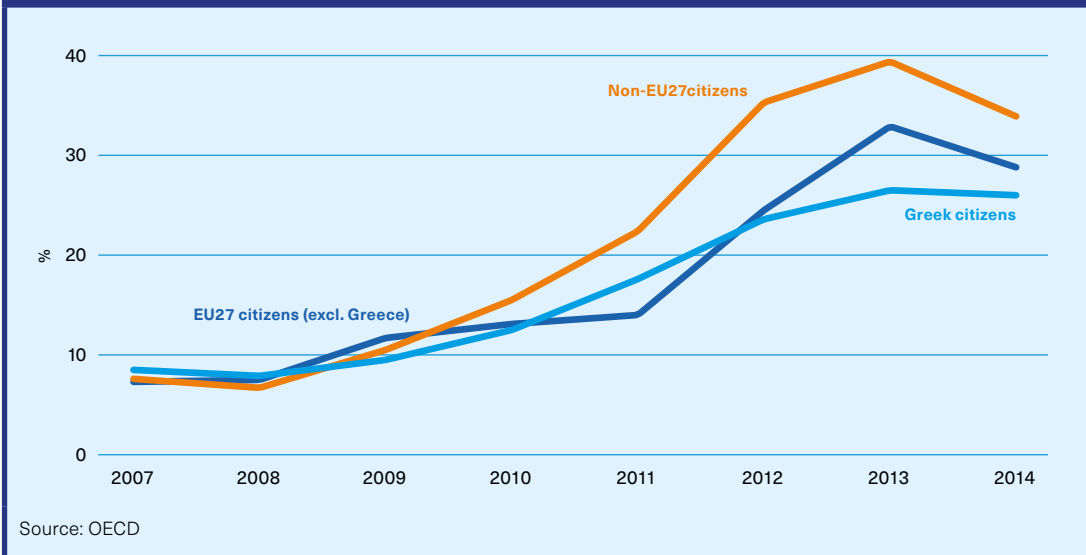
age/gender groups was before the crisis. This is just a manifestation of the male-breadwinner model on which the entire Greek post-war socio-economic system was built. By the first quarter of 2014 this system seems to have collapsed, since the unemployment rates for these groups have increased almost six-fold.

The regional dynamics of the unemployment rate during the crisis are less remarkable (table 1.4). The unemployment rate increased across all regions from the first quarter of 2008 to the first quarter of 2014, and the dispersion of unemployment rates became smaller – even in an absolute sense: the region with the lowest unemployment rate in 2008 was *North Aegean*, and the region with the highest rate, *South Aegean* (5.5 and 15.9 per cent, respectively). By 2014, *South Aegean* was still the region with the highest unemployment rate, but now the difference in unemployment rates with the region with the lowest unemployment rate,

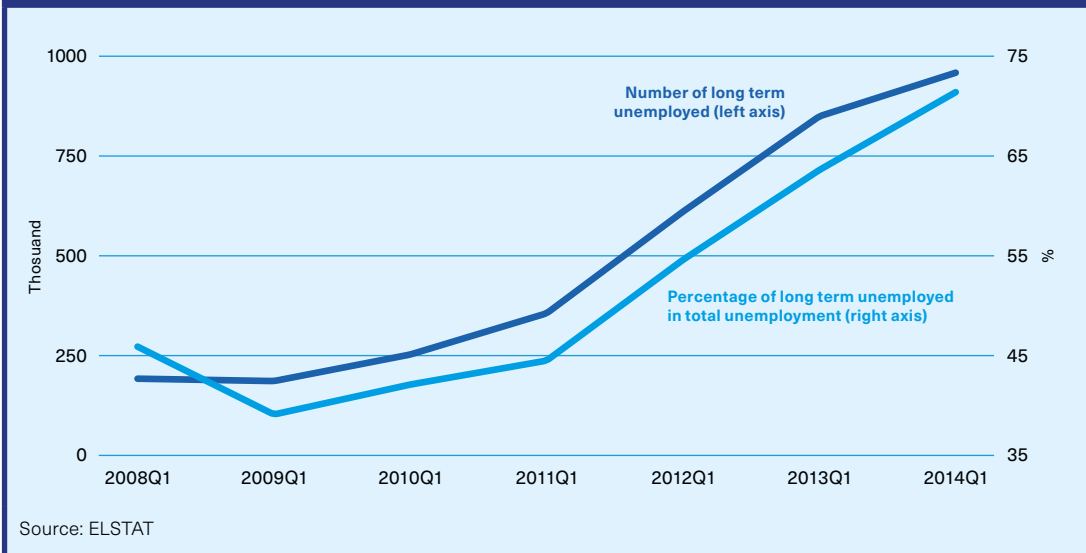
*Peloponnese*, had dropped to just 6.9 percentage points (30.3 and 23.4 per cent, respectively).

Until the crisis started, Greek citizens had unemployment rates similar to the rest-of-the-EU27 citizens working in Greece and the non-EU27 citizens (figure 1.14). As the crisis intensified, the unemployment rates for the non-Greeks increased faster, and in 2013, the unemployment rates for the rest-of-the-EU27 citizens were 6.4 percentage points higher than for the Greek group (32.9 vs. 26.5 per cent), whereas for the non-EU27 citizens the unemployment rate was 12.9 percentage points higher (39.4 per cent). From 2013 to 2014, the unemployment rates for all groups declined, but more markedly so for the non-Greek groups; this may be due to the intensification of the exodus of migrant workers from Greece, as lower wages, the length of the crisis and the higher frequency of racist attacks made Greece a less inviting country for migrant workers.

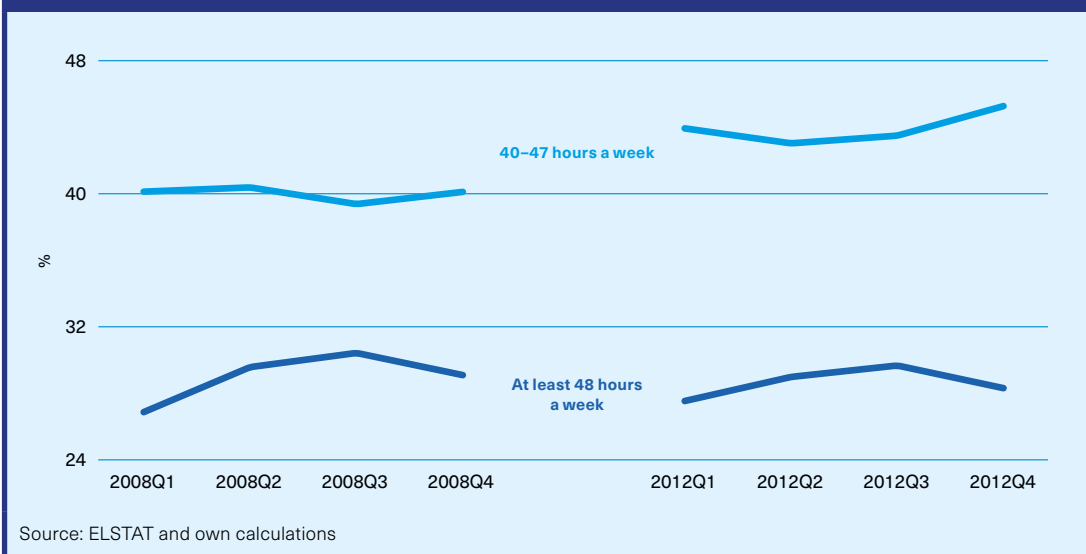
**Figure 1.14 Evolution of unemployment rates across citizenship groups Q2 data (per cent)**



**Figure 1.15 Long-term unemployed**



**Figure 1.16 Proportion of persons according to hours worked (per cent)**



**Table 1.4 Regional unemployment rates (%)**

	2008 Q1	2009 Q1	2010 Q1	2011 Q1	2012 Q1	2013 Q1	2014 Q1
Country total	8.4	9.5	11.9	16.1	22.8	27.6	27.8
Eastern Macedonia and Thrace	9.7	10.8	14.5	18.2	23.1	26.7	25.4
Central Macedonia	8.8	9.7	12.6	17.7	24.9	29.7	29.9
Western Macedonia	12.5	14.3	15	22.2	28.3	32	28.4
Epirus	9.8	11.4	12.2	15.1	20.2	26.7	28.5
Thessalia	8.2	8.7	11.3	14.3	20.4	25.6	25.2
Ionian Islands	11.6	13.9	20	20.3	16	22.8	27.4
Western Greece	10.1	10.3	9.5	15.3	23.3	27	29.7
Stereia Ellada	8.9	10.6	11.7	16.1	24.6	28.2	27.6
Attiki	6.9	7.8	10.9	15.1	23.4	28.6	28
Peloponnese	7.8	8.2	8.6	12	18.4	20.6	23.4
North Aegean	5.5	7.6	8.2	13	20.3	24.2	24.4
South Aegean	15.9	17.2	19.5	24.7	14	24.9	30.3
Crete	7.9	11.1	13.1	16	23.9	26.9	26.9

Source: ELSTAT

Of particular concern regarding labour market policy as an aid to future recovery and for the design of social welfare policy is the large rise in the number of long-term unemployed (i.e. those being unemployed for at least 12 months). Figure 1.15 shows this dramatic rise, where the number of long-term unemployed increased five-fold from the first quarter of 2008 to the first quarter of 2014. The share of long-term unemployment in total unemployment has also increased during the same period from 45.9 per cent to 71.4 per cent.

Another notable development during the crisis is the rise in the proportion of employed persons working at least 40 hours per week. Figure 1.16 shows that the

share (among all employed persons) of those working at least 48 hours per week stayed (practically) constant between 2008 and 2012 (at about 29 per cent), whereas the proportion of those working 40–47 hours per week increased from 40 per cent in the last quarter of 2008 to 45 per cent in the last quarter of 2012 – thus increasing the proportion of those working at least 40 hours per week to 74 per cent. This development may be due to various factors (e.g. due to the changing composition of employment, to the willingness of employees to work more unpaid hours, to the increase in the number of hours that public sector employees have to be in situ), but it certainly does not indicate that the social partners engaged in work-sharing arrangements.

# Employment Protection Legislation (EPL)

# 2

Employment protection legislation (EPL), that is, the rules governing the hiring and firing of workers, has been singled out by many economists and some international organizations as a significant determinant of employment outcomes across countries, and across gender/education/age groups within a country (e.g. Nickell, 1997; Elmeskov et al., 1998). This chapter lays out the general picture for some recent changes in the evolution of the employment relationship in Greece, and then relates these developments to changes in EPL.

## 2.1 The changing structure of the employment relationship

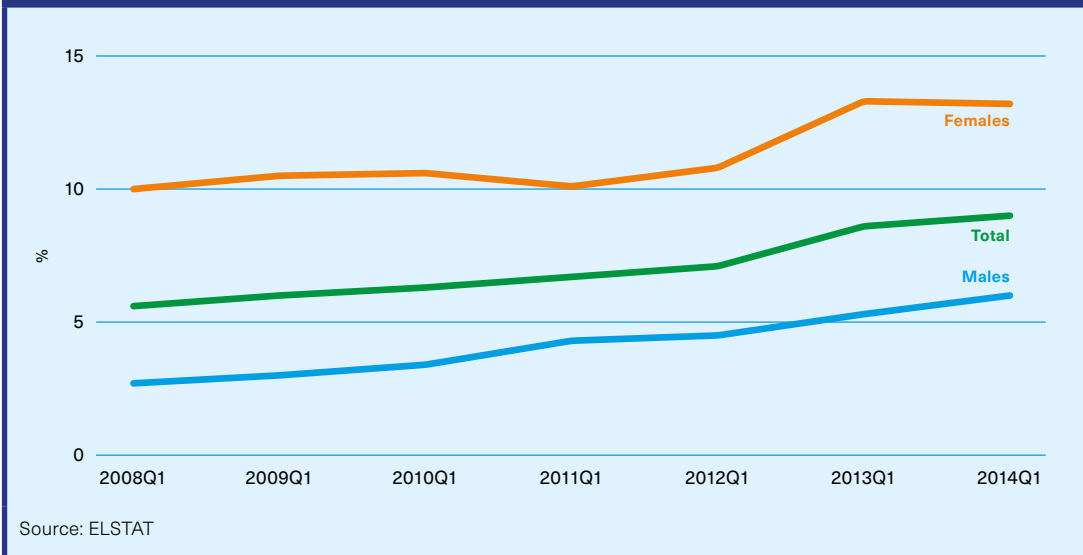
The incidence of part-time employment has been very low in Greece. Figure 2.1 shows that in the first quarter of 2008, part-time employment as a percentage of total employment was 5.6 per cent – a figure which is significantly lower than in most EU15 countries, with the incidence of part-time employment being higher among females (10 per cent) than among males (2.7 per cent). There was no significant rise in part-time employment from the early 1980s to 2008, as the share of part-time employment ranged from 4 to 6 per cent during this period, and this was true for both males and females. Since 2008 the incidence of part-time employment increased for both genders, taking, in 2014Q1, the male rate to 6 per cent, the female rate to 13.2 per cent and the total to 9 per cent. Despite the significant increase – according to the surveys – in the share of part-time employment during the crisis, the Labour Institute (INE) of the Greek top-tier labour organization (i.e. the Greek General Confederation of Workers, GSEE) estimates that about 200,000 are actually working full-time, but for reasons relating to the shadow economy and tax evasion (both on income taxes and social security contributions) they are declared as “part-time” (INE/GSEE, 2013). Nevertheless, it is not known to what extent this phenomenon has affected the responses recorded in the Greek Labour Force Survey, nor does INE/GSEE provide any information of how this figure (i.e. the 200,000) was arrived at or how it has

changed during the crisis. Of some relevance for these developments is that INE/GSEE estimates that about 300,000 persons are ‘pseudo’ self-employed persons who in fact do provide salaried services. Again, it is not known how this figure has changed during the crisis, nor to what extent it has impacted on the estimates of the size of part-time employment. In an effort to stem the rise of this practice, Law N. 3846/2010 gave workers the right to appeal for a conversion from a pseudo self-employment status to a salaried employee status after nine months of providing labour services to an employer who was the sole (or main) buyer of these services – but the burden of proof rests on the worker. Unfortunately, no evidence has been provided regarding the effect this legislation had on contractual arrangements.

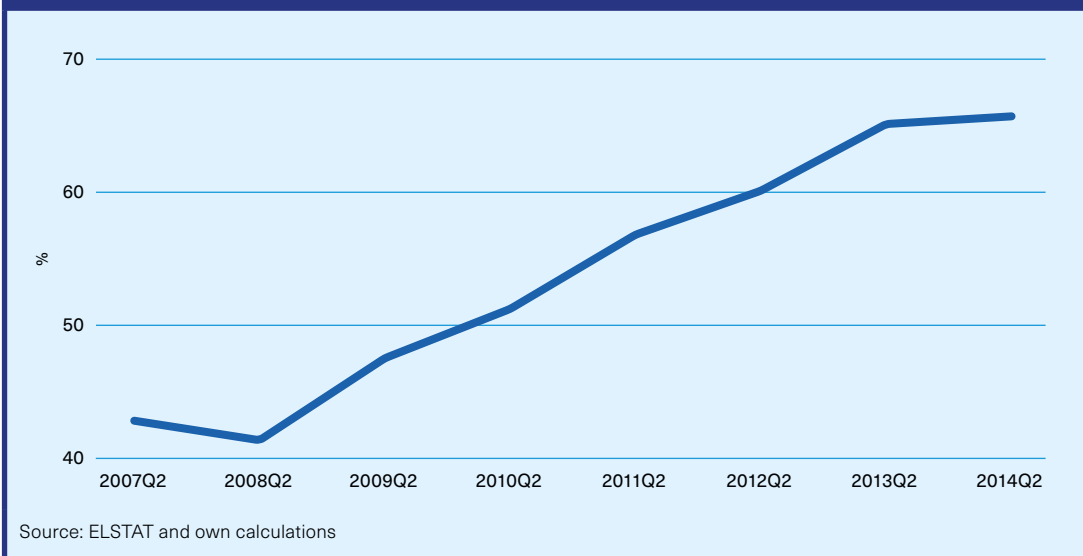
During the crisis there was also an increase in the proportion, among part-time employees, of those who would have preferred a full-time job but were unable to secure one and had to settle for a part-time job. Figure 2.2 shows that the share of such “involuntary” part-time employees in total part-time employment increased steadily during the crisis from 41.3 per cent in the second quarter of 2008 to 65.7 per cent in the same quarter of 2014. As there are no data available regarding the conversion of full-time jobs to part-time ones, it cannot be ascertained to what extent this rise in “involuntary” part-time employment is a result of contract conversions or of the entry of new firms which rely more on part-time employees (e.g. the increase in “necessity entrepreneurship” which all too often took the form of small fast-food outlets or coffee shops that rely rather heavily on part-time employees).

Figure 2.3 shows that the increased use of part-time employment was not spread equally across sectors. *Agriculture, forestry and fishing* was a rather intensive user of part-time employment in 2008Q1, but by 2014Q1 it had decreased its use of it by about 5 percentage points, whereas *Professional, Technical, and Administrative Activities* and *Information and Communication* – equally intensive users of part-time work in 2008 – both increased their use of part-time employment by about 10 percentage points. Also of

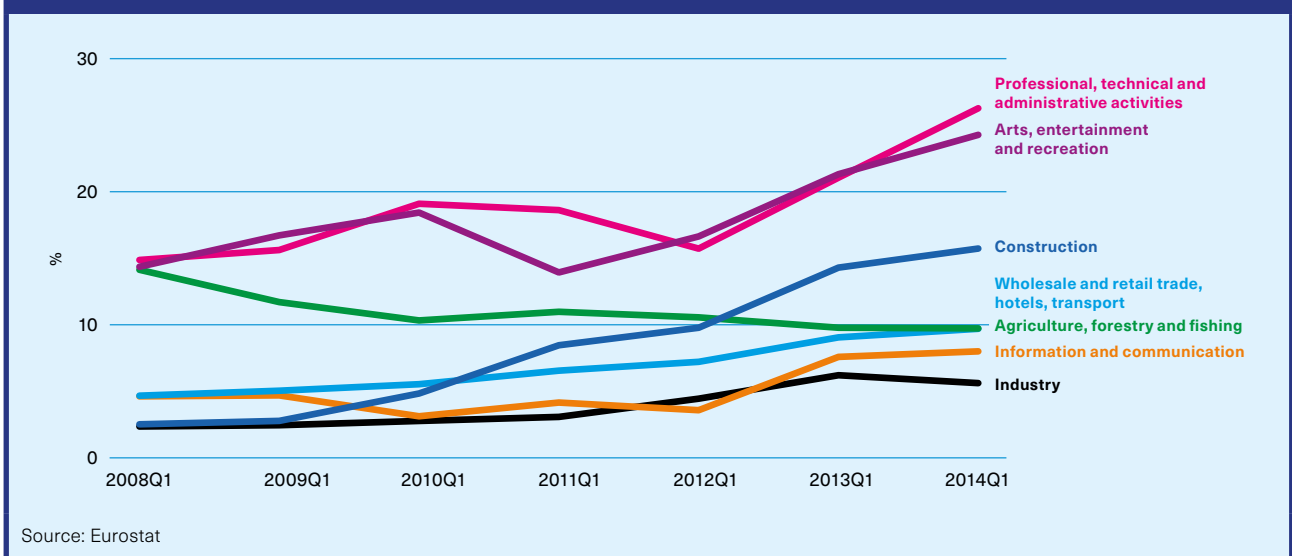
**Figure 2.1 Part-time employment as share of all employment (per cent)**



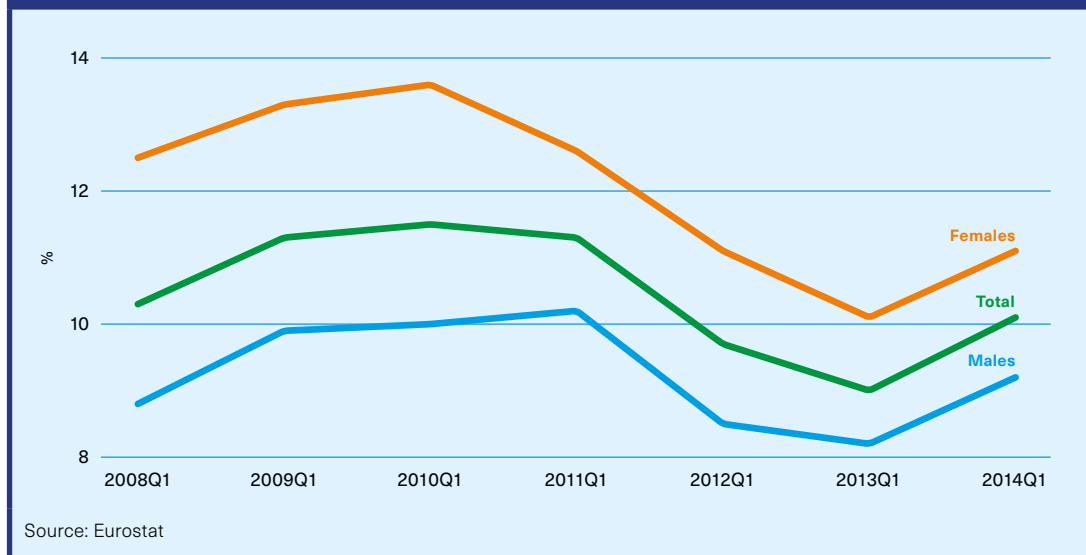
**Figure 2.2 Share of involuntary part-time employment (per cent total part-time employment)**



**Figure 2.3 Incidence of part-time employment across sectors (per cent)**



**Figure 2.4 Gender-related and total rates of temporary employment (per cent)**



interest is the six-fold increase in the use of part-time work by *Construction*, possibly in response to the huge decline in employment in that sector.

The share of temporary employment in total employment during the crisis has fluctuated without a clear trend (figure 2.4). This was also the pattern during the pre-crisis years, when the share was fluctuating between 9 and 13 per cent. It bears noting that both before and after the crisis the dynamics of temporary employment were mainly driven by surges in the hiring of temporary workers by the central government, local authorities and publicly controlled enterprises. The fact that there is no difference in the dynamic evolution of temporary contracts between males and females suggests that a (private) sector-based explanation for their fluctuations is less likely. Nevertheless, changes in legislation pertaining to the use and duration of temporary contracts may explain their rebound from 2013 to 2014.

## 2.2 Views regarding EPL before and after the crisis

Even before the crisis, the prevailing view regarding EPL in Greece was that it was very strict.<sup>14</sup> For example, OECD (2007) argued that EPL may be contributing to weak labour demand for “outsiders” and low labour turnover, hindering progress in reducing the large gender/age imbalances in unemployment and hampering innovation activities. Accordingly, it cited approvingly the government’s decision to abolish permanent contracts for new employees in all public enterprises and entities, and it recommended that the government should rebalance employment protection for different occupations,

14. The OECD employment protection indicators are compiled from 21 items covering different aspects of employment protection regulations as they were in force on 1 January of each year. For individual dismissals of workers with regular contracts, these include: (i) procedural inconveniences that employers face when starting the dismissal process, such as notification and consultation requirements; (ii) notice periods and severance pay, which typically vary by tenure of the employee; and (iii) difficulty of dismissal, as determined by the circumstances in which it is possible to dismiss workers, as well as the repercussions for the employer if a dismissal is found to be unfair (such as compensation and reinstatement). The indicator for additional costs for collective dismissals measures the additional delays, costs or notification procedures incurred when an employer dismisses a large number of workers at one time. This indicator includes only additional costs which go beyond those applicable for individual dismissal. It does not reflect the overall strictness of regulation of collective dismissals, which is the sum of costs for individual dismissals and any additional cost of collective dismissals. The indicator concerning regulation of temporary contracts measures regulation of fixed-term and temporary work agency contracts with respect to the types of work for which these contracts are allowed and their duration, as well as regulation governing the establishment and operation of temporary work agencies and requirements for agency workers to receive the same pay and/or conditions as equivalent workers in the user firm.

in particular in should reduce high severance costs for white-collar workers to bring them in line with those for blue-collar workers (OECD, 2007).

Following the crisis, naturally enough, EPL became one of the major elements of the proposed structural reform. Following the signing of the Memorandum of Understanding (MoU) between the government of Greece and the Troika (EU, ECB, IMF) of the lenders, IMF (2010) suggested that the Greek government should amend EPL to extend the probationary period for new jobs to one year, to reduce the overall level of severance payments and ensure that the same severance payment conditions apply to blue- and white-collar workers, to raise the minimum threshold for activation of rules on collective dismissals especially for larger companies, and to facilitate greater use of temporary contracts and part-time work.

Although the views of the international organizations representing the lenders (the Troika) regarding EPL in Greece were clearly articulated, the same was not true regarding the Greek government, which stated that the measures were temporary.<sup>15</sup> Dedoussopoulos et al. (2013) report, on the basis of interviews with high-ranking policymakers and officials, that all policy interventions regarding EPL were imposed by the Troika on an unwilling Greek government. A particular poignant instance of policy ambivalence is provided by the Minister of Labour (at the time of the first MoU) who confessed her disappointment at the relatively moderate stance adopted by trade union leaders – with whom she was in close contact, since she had expected a more militant approach, so that her bargaining position would be strengthened. As to the question of “why a legislative procedure had to be adopted and not one through collective bargaining and social dialogue”, she said that the Troika considered social partners part of the problem, not part of its solution. Yet, some interviewees said that the government went further in deregulating the labour market than demanded by Troika, and attributed this to the lobbying efforts of business interests which – allegedly – even managed to persuade the Troika to demand more deregulation than had appeared

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15. It must, however, be mentioned that some post-crisis decisions taken by the Greek government regarding EPL (e.g. the extension of the probation period to 12 months – during which it would be possible to dismiss a person without notice or severance pay in an open-ended contract, or, by making it possible for a collective agreement at enterprise level to derogate from the provisions set out in a collective agreement concluded at sectoral level, thus resulting in lower pay for the affected workers) were found to be in violation of the European Social Charter by the Council of Europe (see [http://www.coe.int/t/dghl/monitoring/socialcharter/Complaints/CC65Merits\\_en.pdf](http://www.coe.int/t/dghl/monitoring/socialcharter/Complaints/CC65Merits_en.pdf)).

in earlier (e.g. 2010) policy documents. However, this view seems to be in conflict with the Minister’s understanding of the reasons behind the intensification of Troika’s demands, i.e. that it was the failure to achieve targets that forced the Troika to ask for additional measures to compensate for their failure. “This is how they came to demand a 22% reduction in minimum wages” she stated (Dedoussopoulos et al., 2013, p. 41).

Many of the enacted policy changes were in accordance with the stated objectives of the main employer organizations since the 1990s, i.e. the Federation of Greek Industries (SEV), the General Confederation of Professionals, Craftsmen and Merchants (GSEVEE) and the National Confederation of Greek Trade (ESEE). However, it should be stated that there were significant differences among these organizations – due to differences in size and dependence on foreign markets – with SEV showing the biggest interest in dismantling pieces of EPL. Nevertheless, it is widely believed that SEV’s (publicly expressed) proposals for reforming EPL were rather moderate in comparison with the measures that the Troika insisted on, and which were eventually adopted.<sup>16</sup>

In summary, with the exception of SEV’s moderate support for EPL reform (by the standard of the Troika-driven adopted measures), no major political party or social partner (either before or after the crisis) had *publicly* expressed an interest in weakening EPL. The standard political-economy explanation for this state of affairs is that EPL benefits a well-organized (through the device of trade unions) part of the population, thus making the implementation of reform difficult. An alternative explanation is that although the main beneficiaries of EPL are trade union members in industries facing little international competition, there is a “lighthouse effect” on employment and pay conditions in the rest of the economy, since EPL increases the bargaining power of labour vis-à-vis oligopolistic firms, thus providing a wider base for political support. (The case that some (large) incumbent firms may perceive strict EPL as a way to stifle potential competition from start-ups should not be discounted either.) The author is of the opinion that in the Greek context it is hard to give precedence to one explanation over the other – most likely there is complementarity between the two explanations.

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16. The same Minister, when asked whether there were Greek special interests trying to influence the Troika regarding EPL reform, mentioned “export-oriented big enterprises”, “some large firms in the tourist sector”, and went as far as naming a (private) bank, two editors/owners of daily newspapers and national TV channels, and some hotel owners “who are in a state of bankruptcy” (Dedoussopoulos et al., 2013, p. 41).

## 2.3 Post-crisis changes in EPL

Even before signing the first MoU (May 2010), the Greek government had started implementing reforms aimed at reducing EPL under the impression that these reforms may help “calm the markets” but without the government being willing to appear as believing in their necessity of effectiveness. Below is a summary of these reforms.

- In 2010, the maximum duration for which Temporary Employment Agencies (TEA) can “loan” workers to firms, doubled from 18 to 36 months. In 2011, the right to operate TEA was broadened, whereas in 2012, any further regulations regarding the operation of TEA were relaxed (e.g. capital requirements, minimum number of employees).
- In 2010, the length of the trial period for temporary contacts increased from 2 to 12 months. The same became true for contracts of indefinite duration, in effect allowing employers to treat the first 12 months as a trial period, thus not being liable for any severance payments during this period. In 2011, fixed-term contracts were allowed to be renewed for up to three times, with a maximum total duration of 36 months. In 2012, it was permitted for local authorities to hire persons on temporary contracts even in so-called “organic positions” (i.e. for job slots which are deemed to be essential for the functioning of the organization).
- In 2010, the costs for termination of the labour contract were diminished by: (i) reducing the notice period for contract termination by 50 per cent and (ii) by allowing the firm to pay the required severance payments in instalments. A further reduction in the notice period (from 6 to 4 months), and in the maximum sum of severance payments (cut in half) was instituted in 2013. Laws diminishing the likelihood of fired workers to win court cases involving allegations for unfair dismissal were also introduced in 2013.
- In 2010, there was an increase in the maximum allowable number of persons that can be fired by a firm each month; for firms with 20–150 employees the number was raised to six, whereas for firms with more than 150 employees the number was raised to 5 per cent of employees, up to a maximum of 30 employees.
- In 2011, the law became stricter for firms firing women up to 18 months after childbirth.
- All regulations regarding the terms under which tenure is guaranteed in the wider public sector were abolished in 2012.

As a result of these changes, OECD’s EPRC\_V3 indicator (i.e. the weighted sum of sub-indicators concerning the regulations for individual dismissals

(weight of 5/7) and additional provisions for collective dismissals (weight of 2/7)) declined from 2.85 in 2008 to 2.41 in 2013 – the corresponding numbers for the average of the EU15 were 2.64 in 2008 and 2.52 in 2013. Thus, whereas in 2008, according to this indicator Greece had above the EU15 average EPL (five countries had EPRC\_V3 higher than Greece), by 2013 its EPRC\_V3 indicator was below the EU15 average (nine countries had EPRC\_V3 higher than Greece). It is notable that among the Southern European countries who are members of the EU15 (Greece, Italy, Portugal, Spain, or SE4), Greece’s EPRC\_V3 indicator was lower than Italy’s and Portugal’s in both 2008 and 2013 (figure 2.5).

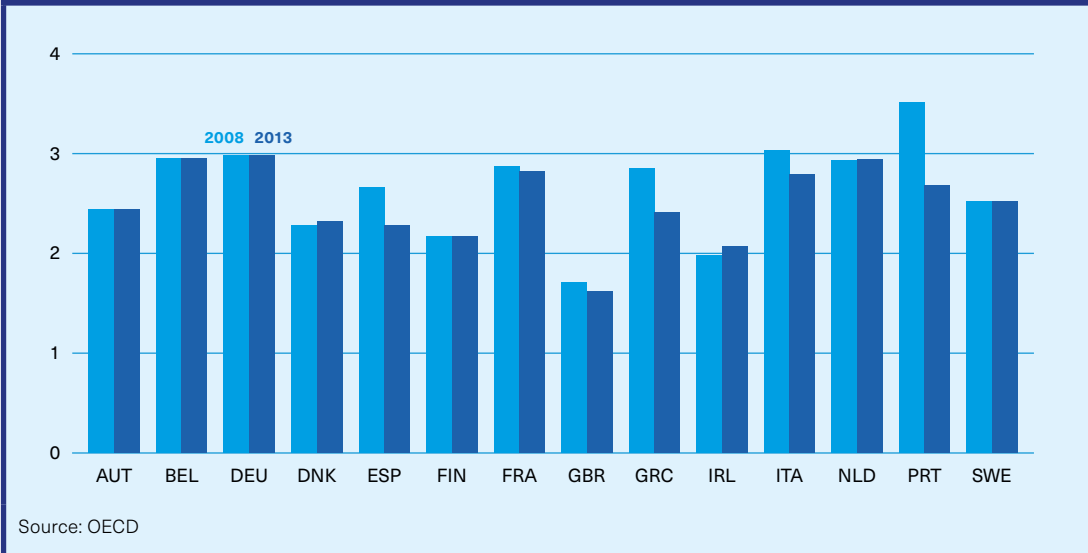
A similar development did not take place regarding the indicator for temporary employment (EPT\_V3), which measures the strictness of regulation on the use of fixed-term and temporary work agency contracts. In 2013 Greece still had the fourth largest indicator among the EU15 (only France, Luxembourg and Spain had a higher one) – the same was true in 2008 (figure 2.6). Moreover, the decline in the index was small between 2008 and 2013 (from 3.17 to 2.92). Among the SE4, Greece had the second highest (behind Spain) in both 2008 and 2013. Similar (downward) movements were observed in other EPL indices reported by the OECD for Greece, except for the EPC indicator – which measures additional costs and procedures involved in dismissing more than one worker at a time (compared with the cost of individual dismissal) – which remained intact.

What are the possible consequences of these changes on labour market outcomes? Theory suggests that reforms leading to weaker EPL lead to an ambiguous effect on unemployment, since a weaker EPL increases both job creation and job destruction. In other words, employment tends to grow more during upturns than before the reforms. On the other hand, during recessions job losses are lower without the reforms. The (international) empirical evidence so far has not been able to settle the issue, as the relationship between the unemployment rate and employment protection (as measured by the OECD’s *synthetic index*) appears fragile and extremely sensitive to the equations estimated and the econometric methods adopted (see e.g. Bertola, 1990; Nickell, 1997; Elmeskov et al., 1998; OECD, 1999; Bassanini and Duval, 2009).<sup>17</sup> Unfortunately, it is impossible to find

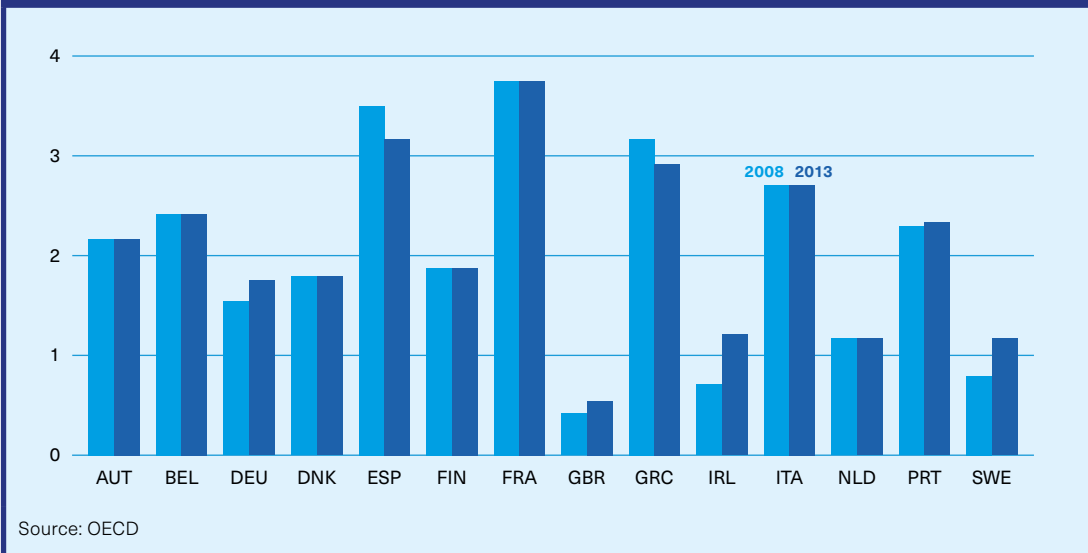
17. Nevertheless, there is more agreement among empirical studies about the impact of firing costs on employment rates (a negative one) and the composition of unemployment (e.g. by raising the youth unemployment rate) – see Bassanini and Duval (2009).



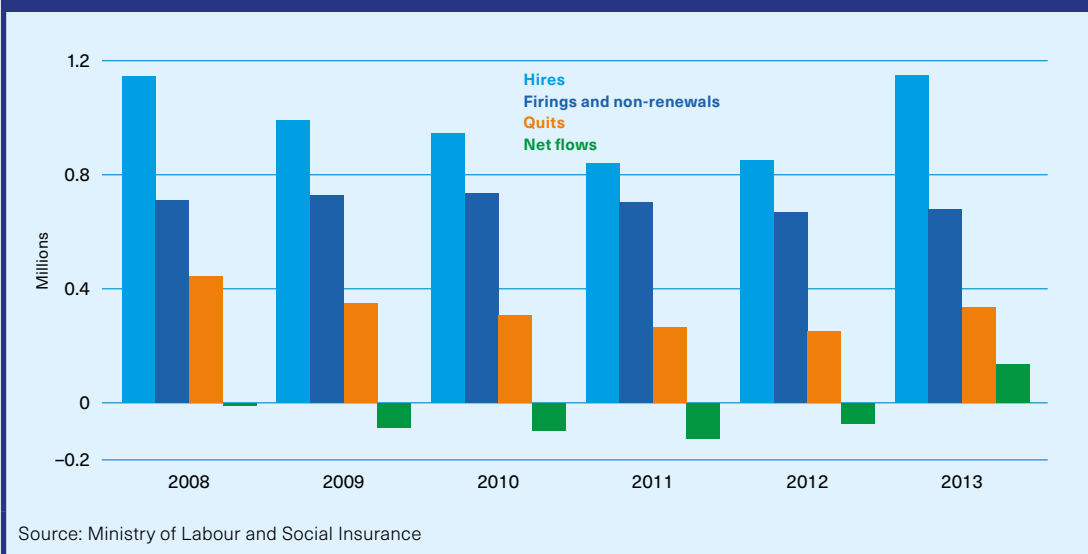
**Figure 2.5 EPL Index for regular contracts in 2008 and 2013 (EPRC\_V3)**



**Figure 2.6 EPL Index for temporary contracts in 2008 and 2013 (EPT\_V3)**



**Figure 2.7 Annual labour market flows**



Month	Full time	Part time	Job rotation	Total
March 2013	29 429	14 019	3 040	46 488
April	62 245	22 965	4 569	89 779
May	82 525	35 942	5 828	124 295
June	61 241	37 916	5 843	105 000
July	55 370	30 156	5 195	90 721
August	42 332	24 329	6 024	72 685
September	59 431	85 685	20 507	165 623
October	59 563	61 546	17 299	138 408
November	45 795	39 675	12 638	98 108
December	62 615	34 280	12 902	109 797
January 2014	51 987	32 674	10 789	95 450
February	43 613	34 458	13 362	91 433
March	47 167	32 231	11 081	90 479
April	89 616	41 164	15 032	145 812
May	95 296	54 132	17 451	166 879
<b>Total</b>	<b>888 222</b>	<b>581 172</b>	<b>161 560</b>	<b>1 630 954</b>

Source: Ministry of Labour and Social Insurance

any evidence of such differential dynamics in the Greek case, given the fact that the economy contracted for six consecutive years from 2008.

Figure 2.7 shows the annual flows of dependent labour. It appears that both hirings and (voluntary) quits decreased steadily from 2008 to 2012, and that both (especially hirings) rebounded in 2013, whereas firings and non-renewals of contracts increased slightly in the beginning and dropped later. These data, published by the Ministry of Labour and Social Insurance, are an amalgamation from two sources: the Manpower Employment Organization (OAED) up to 2012, and the Ministry of Labour and Social Insurance for 2013. It is uncertain, given the different methodologies used to compile the data, how confident one can be as to whether the steep rise in hirings from 2012 to 2013 (from about 850,000 in 2012 to 1,150,000 in 2013 – a figure which is higher than the relevant figures for 2006, 2007 or 2008) did indeed take place. Caution should be used in taking at face value the turnaround shown in figure 2.7, as the positive net worker flow of about 135,000 for 2013 does not match well with the Greek Labour Force Survey (LFS) data as published by ELSTAT, which indicates a decrease in employment from 2012 to 2013 by about 190,000 persons – this

represents about 5 per cent of total employment; it is regarded as highly unlikely – given that the participation rate remained constant between 2012 and 2013 – that the discrepancy between the two numbers can be explained by developments in the number of self-employed persons.

The reservations expressed above regarding the comparability between the data up to 2012 and the data for 2013 may be set aside if the focus is turned to the evolution of hirings from March 2013 to May 2014, as collected by the Ministry of Labour and Social Insurance (table 2.1). These data indicate a large (about 33 per cent) increase in hirings between comparable months (March, April and May) in 2013 and 2014; this is more likely to be consistent with the data from the LFS which show a *small* decline in employment *and* in the participation rate between the first months of 2013 and 2014. Table 2.1 also reveals a reduction in the proportion of full-time hirings in total hirings (for the same months) from 2013 to 2014; whereas from March to May in 2013, full-time hirings were 67 per cent of total hirings, full-time hirings were only 58 per cent of total hirings for the same period in 2014. Hirings involving job rotation showed a large increase between the two years, with their share in total hirings rising from 5 per

**Table 2.2 Flows to and from employment (relative to the same quarter of previous year)**

Year	From unemployment	From non-participation	Total
<b>To employment</b>			
2008 Q1	109,274	77,420	186,694
2009 Q1	90,206	80,273	170,479
2010 Q1	85,244	65,734	150,978
2011 Q1	84,278	47,690	131,968
2012 Q1	81,036	33,120	114,156
2013 Q1	112,215	37,326	149,541
2014 Q1	157,297	35,808	193,105
<b>From employment</b>			
2008 Q1	62,235	76,951	139,186
2009 Q1	104,937	76,832	181,769
2010 Q1	132,356	77,349	209,705
2011 Q1	195,193	102,329	297,522
2012 Q1	222,861	93,997	316,858
2013 Q1	190,289	88,725	279,014
2014 Q1	145,255	71,955	217,210

Source: ELSTAT

cent (March–May) in 2013 to 11 per cent in 2014 – the share of part-time hirings increased from 28 per cent in 2013 to 31 per cent in 2014. It is still too early to assess to what extent the weakening of EPL has contributed to these changes.

Finally, table 2.2 shows the net worker flows between the three labour market states (employment, unemployment, non-participation) as calculated by the LFS of ELSTAT regarding the change in labour market status of workers between the first quarter of the previous year and the first quarter of the year displayed. Thus, it is observed that in (the first quarter of) 2008, 109,274 among those that were unemployed in 2007 moved to employment, and another 77,420 workers

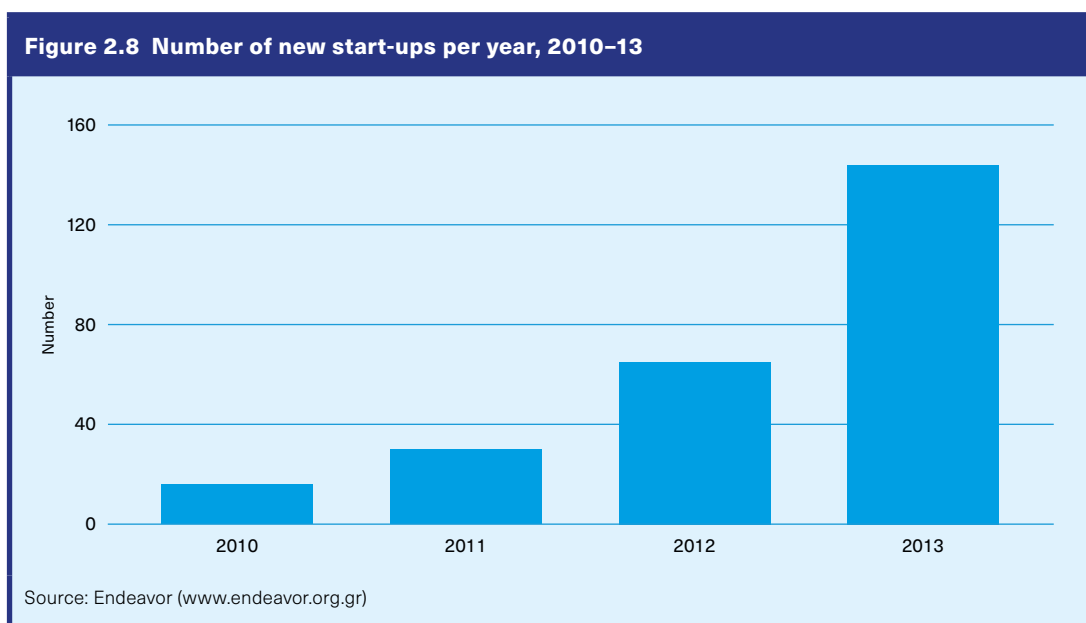
among those not participating in 2007 moved to employment, making the total flow into employment equal to 186,694 persons. These flows into employment decreased steadily until 2012, and then increased in 2013 and 2014. Regarding the flows from employment to unemployment, these increased by 258 per cent between 2008 and 2012, and then decreased by 35 per cent between 2012 and 2014. Nevertheless, even in the first quarter of 2014, the (total) flows into employment remain smaller than the flows out of employment. It is very difficult – at the moment – to assess whether the reduction in the rate at which employment has been declining is due to the slowing down of output declines or a result of changes in EPL.

## 2.4 Entrepreneurial initiatives in the period of crisis

The crisis has fostered what has always been the case in Greece: necessity entrepreneurship, i.e. people that become entrepreneurs after losing their job as an employee, or young entrants in the labour force who, after being disappointed searching for a job, use the family's accumulated savings in order to start a small business. It is clear that this type of entrepreneurship cannot be a solution to Greece's unemployment problem since the firms created usually remain very small – if they ever employ anybody beyond family members – and do not export or produce goods which are substitutes for imports. (In fact, all too often, producers of traded goods who have lost their business to foreign competitors set up companies which engage in wholesale importing of their competitors' products.)

By contrast, opportunity entrepreneurship (i.e. entrepreneurs who start a business in order to pursue an

opportunity) could be a significant factor for sustained employment creation along with increases in productivity and exports. The number of (innovative) firms classified as start-ups in Greece has been very low, but some activation of tools for funding (the so-called JEREMIE funding), in the context of the EU funds, led to a significant increase in their number (though from a very low base) from less than 20 in 2010 to just above 140 in 2013 (figure 2.8). In terms of funds invested, from a very low €500,000 in 2010, investment in 2013 reached €42 million. In terms of sectors, the majority of start-ups are technology companies, followed by agro-food companies. The e-commerce, health, tourism, education and entertainment sectors follow with lower shares. It is clear that unless the next Samsung is among these start-ups, their numbers are far too small to expect them to have a non-negligible impact on Greece's labour market in the near future (especially given their very small survival rate). Still, measures to support their creation are necessary since innovative start-ups can be a harbinger of the required structural change.



# Unemployment benefits, social insurance and social assistance

3

The growth in government spending in Greece is largely accounted for by the growth in social transfers, which rose from 8 per cent of GDP in 1970 to 21 per cent of GDP in 2009, and in the compensation of public employees (from 8 per cent in 1976 to 12.7 per cent of GDP in 2009). Of particular interest is the fact that during this period, government spending on gross fixed capital formation (excluding capital transfers received) remained practically unchanged, hovering around 3 per cent of GDP. The growth in transfers (mainly to households) can be partly explained by the fact that as late as 1980, Greece spent only 11 per cent of its GDP on income transfers, whereas the average for the EU15 was 17 per cent. The most important category among income transfers in Greece is pension benefits. This has been the fastest-growing category of social spending, and the biggest risk regarding the sustainability of public finances in Greece.<sup>18</sup>

The Greek government, in an effort to deal with the problem, adopted some reforms in 2008 which were expected to bring some order to the chaotic system of social insurance (see below). Despite appearances, when the crisis hit Greece, these reforms were deemed inadequate. Further reform of the social security system was a core prerequisite for the signing of the first MoU, since the Troika considered the Greek social security system unsustainable. These reforms were introduced progressively through Laws 3863/2010, 3996/2011, and 4093/2012.

Expenditure on social protection in Greece had always been lower than the European average (23.5 vs. 26.8 per cent of GDP in the EU15); by 2008, the gap was smaller (26.2 vs. 27.6 per cent), and even smaller in 2010 (29.1 vs. 30.2 per cent). Retirement pensions formed the backbone of Greece's social protection system, providing households with as much as 24.1 per cent of their disposable income (ELSTAT, 2010). Other social

transfers (e.g. family, sickness, housing, unemployment and social assistance benefits) were far less important, their total contribution to average household disposable income being 3.2 per cent.

## 3.1 Unemployment benefits

In 2008, the basic unemployment benefit was a flat rate equal to 55 per cent of the minimum wage (MW hereafter), i.e. it was equal to €454.25 per month. The drop in the value of the MW since March 2012 has also resulted in a drop in the value of the monthly basic unemployment benefit, which currently stands at €360.00. The value of this benefit increases by 10 per cent for each dependent person (spouse or child)<sup>19</sup> in the family of the benefit recipient; e.g. for a worker whose spouse is not in the labour force and they have five children, the benefit is €576.00. The above sums do not apply to workers who were working part time; for these workers, the unemployment benefit depends on previous earnings, and it can be as low as 50 per cent of the corresponding sum received by full-time workers.

The duration of unemployment benefits depends on a complex formula which takes into account the days worked during the previous 14 months, the age of the recipient, and previous occupation. The maximum duration of unemployment benefits was, and remains, 12 months, while the lowest duration is five months. For example, a worker who has worked less than 125 days (each month in employment counts as 25 days) during the last 14 months receives no unemployment benefits; a worker who has worked between 125 and 149 days during the last 14 months<sup>20</sup> is entitled to a maximum of five months of unemployment benefits.

19. Dependent children for non-contributory family benefits are defined as those that are (i) unmarried, aged less than 23, or (ii) suffering from any kind of disability above 67 per cent irrespective of age.

20. There is a further eligibility criterion which states that the days worked during the last two months before the worker's loss of employment do not count in the calculation of the 125-day threshold. Moreover, the eligibility criteria differ depending on whether the worker receives benefits for the first time or not.

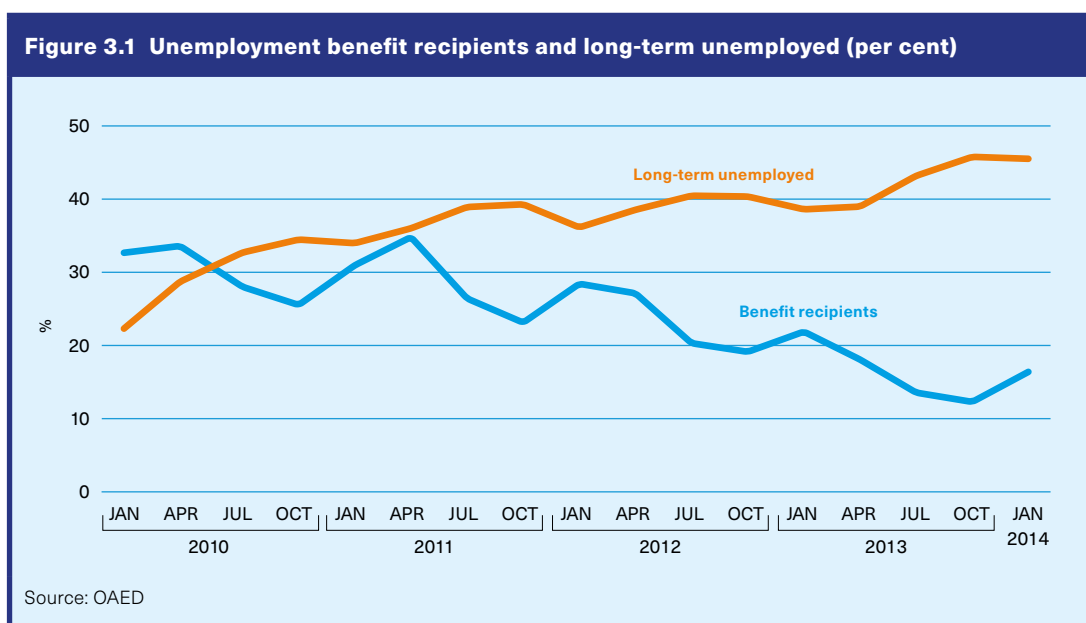
18. Before the crisis hit Greece, the European Commission projected that government spending on pension payments was expected to rise in Greece from 11.7 per cent of GDP in 2007 to 19.4 per cent in 2035 (for the EU27 the rise is expected to be only 1.7 percentage points, taking it to 11.9 per cent of GDP in 2035).

Until the end of 2013, to be eligible for unemployment benefits one should not have received them for more than 450 days during the previous 48 months. (This is equivalent to not having received them for more than 18 months, since each month counts as 25 days of benefit support.) Thus, until the end of 2013, workers who became unemployed anew, and had received unemployment benefits for 17 months during the previous 48 months, were entitled to just one month's unemployment benefits, since they could only receive them for a maximum of 18 months during the previous 48-month period.

Unfortunately, this rule has become harsher since 1 January 2014. It now imposes a maximum of 400 days (16 months) of benefit support during the previous 48 months. This will further exacerbate the problem of those with temporary employment (e.g. tourism, substitute school teachers), who will either totally lose their unemployment benefits during the inactive months, or will receive only part of the benefits. Given the high, and increasing, incidence of long-term unemployment in Greece since the crisis, this rule implies that a large proportion of the unemployed become ineligible for unemployment benefits, which, in tandem with the strictness of the other eligibility criteria, explains the sharp drop in the proportion of unemployed receiving benefits. According to figure 3.1, in January 2008, among those registered as unemployed with OAED, only 33 per cent were receiving unemployment benefits; this proportion (ignoring seasonal fluctuations) decreased to just 16 per cent in January 2014. During the same period,

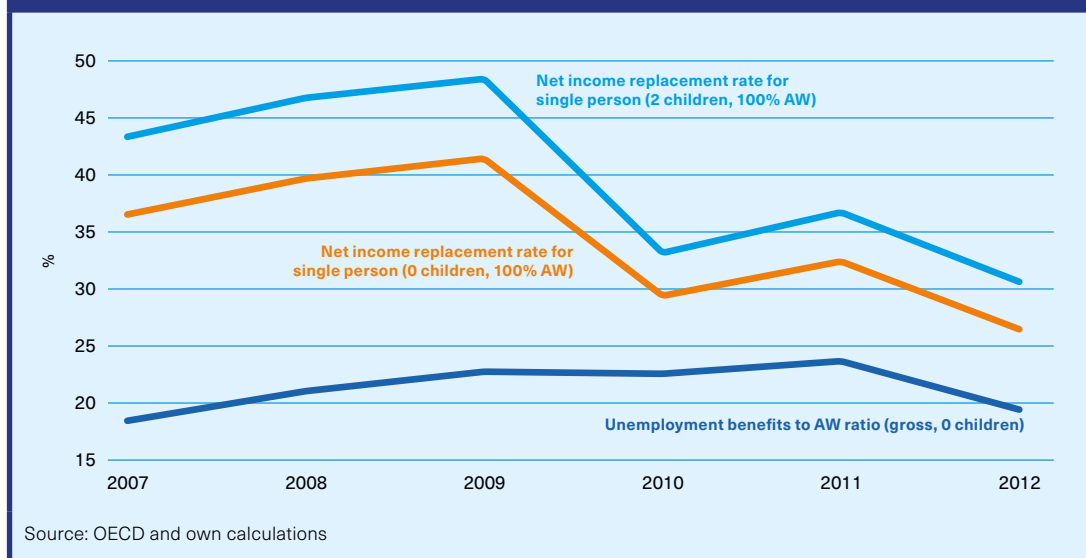
the proportion of long-term unemployed (i.e. those that have been unemployed for at least 12 months before their previous employment spell) among all registered as unemployed increased from 22.9 per cent in January 2008 to 45.6 per cent in January 2014. It bears noting that the above-mentioned proportions are based on the number of registered unemployed, which is significantly smaller than the number of unemployed as estimated through ELSTAT's LFS; ELSTAT's estimates are the official estimates as reported by Eurostat as well. For example, according to ELSTAT, the number of unemployed persons in January 2014 was 1,299,208, whereas the number of those registered with OAED was 1,062,509. Using ELSTAT's number would further decrease the proportion of those receiving benefits in January 2014 to a mere 13.4 per cent.<sup>21</sup> These proportions deteriorated further in May 2014, with the proportions receiving benefits dropping to 9.8 per cent if the OAED measure of unemployment is used, and to 7.2 per cent according to ELSTAT's unemployment measure.

Figure 3.2 shows the evolution of unemployment benefits as a ratio of the average wage (AW) in the economy, as well as the ratio of net income when unemployed to net income for a single person earning 100 per cent of the AW with either two or no dependent children. It is observed that although the ratio of unemployment benefits to the AW in gross terms has stayed roughly constant since the start of the crisis, the net income received by a single person when unemployed relative to net income when employed and receiving the AW has dropped by



21. The social assistance benefit of €200 per month (see next section) is received by less than 2 per cent of the long-term unemployed.

**Figure 3.2 Gross and net replacement rates, 2007–12 (per cent)**



10 percentage points for a single person without children, and by 13 percentage points for a single person with two children (from about 43 per cent in 2007 to about 30 per cent in 2012). The decline in replacement rates has been larger if a comparison is made between 2012 and 2009 – the latter being the year that the crisis started being visible in Greece. In absolute terms, the decline in net (nominal) income for a single unemployed person with two children was €3,074 between 2007 and 2012 – representing a decline of 36 per cent in nominal terms, and of 51 per cent in real terms.

### 3.2 Social assistance

The granting of social assistance in Greece follows the same haphazard pattern as all other aspects of social welfare disbursement. In this aspect, it is telling that Greece still remains one of the only two among the EU28 countries (the other is Italy) that does not have a minimum income guarantee programme either at the national or at the regional level (see Missoc Analysis, 2011) – although a pilot programme is running in 13 municipalities at the moment (early 2015).

For the long-term unemployed there exists (since 2001) an unemployment assistance benefit which has been €200 per month since 2003. However, it used to be burdened with overly strict eligibility criteria: an annual income of up to €5,000, plus €587 (per annum) for each dependent child, and being more than 45 years old. Moreover, its maximum duration is 12 months. These facts, plus limited publicity regarding its existence, have made its uptake very small – data indicate that less than 1 per cent of the long-term unemployed

were receiving it before 2010.<sup>22</sup> Since January 2012, the annual income threshold has been €12,000 (plus €587 for each dependent child). As a result, the number of recipients increased considerably to about 20,000, on average, in 2012 and to about 28,000, on average, in 2013. (Nevertheless, given the steep rise in long-term unemployment, this still represented less than 5 per cent of the long-term unemployed.) Since the start of 2014 both the age and income threshold for eligibility have dropped: the age threshold to 25 years old, and the income threshold to €10,000 annual income.

In addition to the unemployment assistance benefit, there exists a family allowance benefit which – under some labyrinthine preconditions – can reach up to €134 for one child (annually), €331 for two children and €701 for three; the additions for higher numbers of children get progressively smaller, e.g. for six children the family allowance benefit rises to €1,115.

Beyond the above employment-dependent benefits the following non-contributory, non-lump-sum<sup>23</sup> benefits exist (or existed since the crisis, but no longer exist):

- (i) Child benefit, which was introduced for the first time in 2013, and is paid to low-income families with dependent children. The value of the benefit is independent of the number of children. However, an equivalence scale is used for the purposes of means-testing. This assigns the value of 1 to the

22. The number of recipients in 2010 was about 1,850 and about 3,000 in 2011.

23. A variety of lump-sum benefits used to exist (e.g. third-child birth benefit), most of which were abolished in 2013 (see, Leventi at al., 2014, for a comprehensive summary of these benefits).

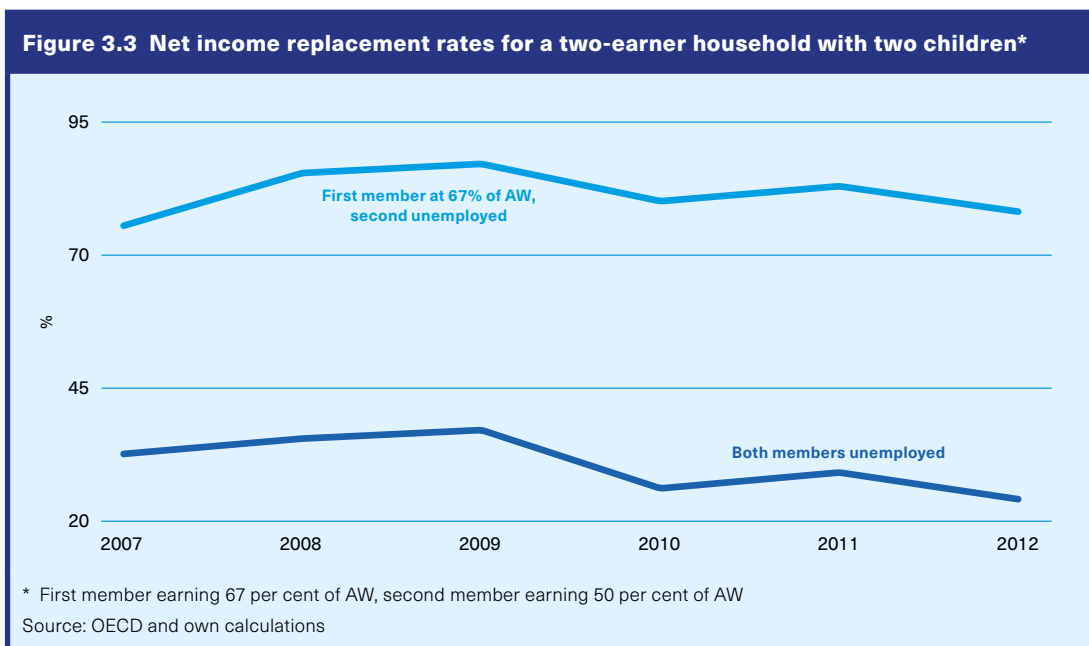
household head, 1/3 to the spouse and 1/6 to each dependent child of the tax unit. Equivalent family taxable income is calculated by dividing family taxable income by the sum of the weightings. The equivalent (annual) income thresholds range from €6,000 to €18,000, since there exists a full rate (applicable to the €6,000 threshold, and equal to €40 per month), and two reduced monthly rates of €26.67 and €13.33.

- (ii) Third-child benefit, which is paid to families with three (or more) children until the third child reaches the age of six. It was abolished in 2013, and during the period 2009–12 it ranged between €174 and €179 per month.
- (iii) Large-family benefit, which is paid to families and single parents with three or more children, as well as children orphaned from both parents if they are two years old or above. During the period 2009–12 the definition of the family included all children irrespective of age, and beneficiaries were families with three or more children and not in receipt of lifetime pension for many children. Eligible children were those (a) unmarried and aged less than 23 years or (b) suffering from any kind of disability over 67 per cent irrespective of age. However, the third child was not eligible if parents were already receiving third-child benefit. Since 2013, the family has comprised the head, the spouse and own dependent children (i.e. children up to 18 years old, or under 20 and registered as unemployed, or 25 if they are enrolled in tertiary education, or under 25 and enrolled in post-secondary or tertiary

education fulfilling their military service and registered as unemployed or suffering from any kind of disability over 67 per cent irrespective of age). Since 2013 there has also been an income test requiring that the annual taxable income of the family must not exceed €45,000, with a further €4,000 increase in the income threshold for each subsequent child after the fourth. During the period 2009–12, the monthly benefit fluctuated around €44 per dependent child. Since 2013 it has been set at an annual rate of €500 per dependent child.

- (iv) Lifetime pension for mothers with three or more children (of any age and irrespective of whether they live with their parents or not) who are no longer eligible for the large family benefit. This benefit was equal to €102 per month, and it was abolished in 2013.
- (v) Pensioners' social solidarity benefit (EKAS), which is a means-tested supplement to low pensions, restricted to those receiving a contributory social insurance pension (i.e. it is not available to farmers). Beneficiaries must be over 60 years old if in receipt of an old-age pension or a survivor pension. The age condition does not apply to recipients of invalidity or orphans' pensions. Depending on family income, this benefit ranged from €30 to €230 per month throughout the period 2009–13.

The effects of the above-mentioned changes in unemployment benefits, social assistance and other social benefits on net replacement incomes are shown in figure 3.3 for a two-earner household (at 67 per cent and 50 per cent of AW, respectively) with two children.





It can be observed that, relative to 2009, there has been a decline in the net replacement income (i.e., post-tax and -transfers). The decline has been more pronounced in cases where both members of the household become unemployed, where the replacement rate declined from 37 per cent in 2009 to 24 per cent in 2012; in cases where the household only has one member working and earning 67 per cent of the AW, the corresponding decline is from 87 per cent in 2009 to 78 per cent in 2012. The decline in the absolute (nominal) net income if both members of the household become unemployed is €3,464 – representing a decline of 42 per cent between 2009 and 2012 in nominal terms, and of about 57 per cent in real terms.

### 3.3 Old-age pensions

The idiosyncratic nature of social insurance in Greece applies in full force in the case of pensions, which used to be provided by many social insurance agencies or “funds”. For example, in 2010 there were close to 130 primary and supplementary funds providing pension and health insurance (see Moutos and Tsitsikas, 2010). The conditions of pension provision (retirement ages, replacement rates, contributions etc.) used to vary significantly, chiefly by pension fund, though there remains considerable variability by occupational sub-groups. A new system was created for those entering the labour market after 1 January 1993, which is essentially uniform for the non-rural social insurance sector. The general retirement age for those who began working after this date used to be 65 for both men and women.

Even before the size of the impending crisis was obvious to most senior policymakers in Greece, it was evident that the Greek pension system was unsustainable. Pensions were the fastest-growing category of social spending, and the biggest risk regarding the sustainability of public finances in Greece. Government spending on pension payments was expected to rise in Greece from 11.7 per cent of GDP in 2007 to 19.4 per cent in 2035 (for the EU27 the rise is expected to be only 1.7 percentage points, taking it to 11.9 per cent of GDP in 2035 – see EEAG, 2010). In an effort to deal with the problem, in 2008 the Greek government adopted some reforms which were expected to bring some order to the chaotic system of social insurance. The main components of this reform were (see Zervou, 2009; Moutos and Tsitsikas, 2010):

- (i) to reduce the number of pension funds (from 133 to 5), whereas many other social insurance schemes, which were based on agreements between firms and small groups of workers, were consolidated

under six supplementary (pension) schemes and two welfare schemes;

- (ii) to increase the age at which some beneficiaries can retire on a full pension;
- (iii) to increase the age threshold for early retirement;
- (iv) to reduce the replacement rates of supplementary pension schemes; and
- (v) to allow for greater flexibility in accessing maternity leave in order to encourage more women to enter the labour market.

Yet, by 2010, when some Greek policymakers started realizing the magnitude of the impending crisis, it became apparent that the previous reform was inadequate; i.e. in addition to changes in the architecture of the social security system, large cuts in pensions were inevitable, since the base of support of the pension system (government-provided funding, and social security contributions) was about to collapse due to Greece’s Great Depression.

Traditionally, the Greek pension system rested on three pillars. The first pillar (counting as more than 98 per cent of the whole system) operated as a defined-benefit pay-as-you-go system, and provided three types of benefits: a main pension, a supplementary pension, and lump-sum amounts and provident grants. Pillar II consisted of the occupational schemes, and Pillar III was for private insurance. The system operated on the basis of 14 equal instalments being made per annum (in December and in August two instalments – in each case – would be received, and a single one would be received for the rest of the months), and contributions would be made accordingly.

The main components of pension reform immediately after signing the MoU in 2010 are as follows:

- It was decided that the main pension would be divided into two parts – a basic part, which is means-tested and serves as a safety net, and is paid 12 times year, and a proportional part which depends on the accrual rate and the pensionable salary. The accrual rates, which were formerly varying between 2 per cent and 3 per cent, were reduced to between 0.8 per cent and 1.5 per cent.
- The statutory retirement age, formerly set at 65, but effectively not more than 62, was set at 65 for both men and women. The annual rise in benefits, formerly a discretionary decision in the hands of the Ministry of Finance, is now linked to the Consumer Price Index, and their annual increase cannot exceed its rise.

- The minimum number of years of contributions for a full pension was raised from 35 to 40.
- The basis for calculating the pension used to be the earnings of the last 5 or 10 years of a person's career – which were usually the years with the highest earnings. Under the new arrangements the basis is the whole career average, thus incentivizing employees to declare their full earnings.

As a result of the changes undertaken since 2010, the gross average replacement rate at retirement<sup>24</sup> is expected to drop by 20 percentage points in 2020 (from 67.9 to 48.1 per cent, see European Commission 2009, 2012). The main changes in the size of pensions since 2010 are as follows:

- In July 2010, the 13th and 14th monthly instalments were abolished for pensioners who are either less than 60 years old,<sup>25</sup> or receive a main monthly pension in excess of €2,500. (This is roughly equivalent to a 14 per cent reduction in the amount of the annual pension.) For the rest of the pensioners the total amount that corresponds to the 13th and 14th monthly instalments was restricted to a maximum of €800.
- A “pensioners’ solidarity surcharge” was imposed in August 2010 on pensioners receiving a main pension of more than €1,400 per month. The surcharge rate rose progressively between 3 per cent and 14 per cent, and it applied to the amount of the pension above €1,400.
- A further surcharge was imposed in August 2011 for main pensions which – after the previous surcharge – remain above €1,700 per month and are received by pensioners below the age of 60. The (progressively rising) surcharge ranged between 6 per cent and 10 per cent.
- In November 2011, a surcharge was imposed on pensioners below the age of 55 who were still receiving a main pension of more than €1,000 per month. The surcharge equals 40 per cent. For those between 55 and 60 years old, the surcharge was for pensions above €1,200.
- In January 2012, a further cut was imposed on main pensions above €1,200. The surcharge was equal to 12 per cent.

- In September 2011, there was a surcharge ranging between 3 per cent and 10 per cent for all supplementary pensions above €300.
- In November 2011, there were further reductions for supplementary funds. For the Unified Supplementary Insurance Fund (ETEAM), the reduction was equal to 30 per cent for the part of the pension above €150. For four other supplementary funds, there was a 15 per cent cut on the whole of the (supplementary) pension, while for the supplementary fund of the civil servants the cut equalled 20 per cent of the first €500 and 50 per cent for the amount above it.
- In January 2012, there was a further cut in supplementary pensions. The cut was graduated and ranged between 10 per cent and 20 per cent for any amount exceeding €200.
- In January 2013, further cuts were introduced if the sum of all main and supplementary pensions exceeded €1,000. The reduction was 5 per cent on the whole of the pension if the sum was between €1,000 and €1,500 – but under the provision that the pension remains above €1,000 after the cut; for sums between €1,500 and €2,000 the cut was 10 per cent – provided that the pension remains above €1,425 after the cut; for sums above €2,000 and €3,000 the corresponding cuts become 15 per cent and 20 per cent (respectively), under the provision that the reduced sums do not fall below €1,800 and €2,550 (respectively).
- In January 2013, the 13th and 14th monthly instalments were abolished without a change in the remaining 12 monthly instalments – this corresponds to an about 14 per cent reduction in the annual pension.
- In July 2014, the supplementary pensions of ETEA were further reduced by up to 5.2 per cent.

As a result of the above-mentioned changes, the net (after tax) pensions received were decreased by more than 20 per cent on average; however, this average reduction masks large differences across pensioners, with the lowest pensions being cut by about 17 per cent, whereas some of the largest ones were cut by more than 40 per cent.<sup>26</sup>

24. The gross average replacement rate at retirement is the ratio of the average pension of those who retire in a given year over their average wage income at retirement.

25. This age threshold does not apply to invalid persons, to pensioners whose occupations were considered arduous, or to persons who were beneficiaries (i.e. family dependents) due to the death of insured persons.

26. Upon retirement most social insurance funds in Greece grant pensioners a lump-sum retirement benefit (known as EFAPAX), which, for those who retired before 2010, could be quite substantial. Starting from 2010, a series of policy interventions have resulted in large cuts, which on average have reduced the EFAPAX by more than 40 per cent, while in some cases the cuts were larger than 80 per cent.

## 4.1 Legislative interventions in the labour market

During the pre-crisis regime and until May 2010, the “starting point” of the wage-setting mechanism in Greece was the National General Collective Agreement (EGSSE). The process of EGSSE involved negotiation between the social partners – represented by third-tier organizations of employees and employers – and its outcomes included a “freely bargained” MW level (as well as the settlement of various non-wage issues). This MW outcome acted as a legal floor and created a strong signal for the lower-tier collective bargaining that followed and which was implemented at different levels. The pre-crisis collective bargaining dynamic is reflected in the number of agreements reached, which for the period from 1990 until 2009 were:

- about 190 sectoral or occupational agreements at the national or local level (involving bargaining between either second-tier employer and employee organizations, or between first-tier employer and employee organizations);
- about 150 enterprise agreements covering workers in a single enterprise, which were conducted between employers and company trade union organizations covering workers in the specific enterprise.

The large number of collective agreements signed each year was considered by trade union officials as the clearest manifestation of the fragmentation of trade union power (Fotoniata and Moutos, 2010). However, the deregulation of the wage-setting mechanism induced by the signed MoU, and enforced by legislation and government decrees, moved in the opposite direction. It initially targeted the “decentralized” part of the collective bargaining process (i.e. the framework for sectoral and occupational agreements) and ended with the abolition of the EGSSE. There was no substantial involvement of social partners in the design of structural reforms, or any form of public consultation prior to the imposition of the measures. In this context, any subsequent social intervention *achieved only small amendments of secondary importance* (Dedousopoulos et

al., 2013). Moreover, *the “new legislation created a new environment that affects the distribution of power and the role of actors involved in the Greek industrial relations system”* (Patra, 2012).

The structural reforms undertaken can be broadly classified along three axes with respect to their scope:

- deregulation of collective bargaining structure;
- deregulation of institutions supporting the collective bargaining process; and
- changes in the MW institution.

### 4.1.1 Deregulation of collective bargaining structure

The widespread deregulation of the collective bargaining mechanism was part of the first MoU (Law 3845/10), and took effect one year later through Law 4024/2011. This law was instrumental in opening the way for enterprise agreements to differentiate the conditions regarding employment and pay from those stipulated under pre-existing sectoral collective agreements. Its main provisions were the following:

- (i) Authorization of “Associations of Persons” as a negotiating and signing party in the collective bargaining process. The institution of Associations of Persons is a primary level of organization and had been provided by Law 1264/1982 as a special form of labour organization, within a specific time period and for a specific goal (Patra, 2012). Law 4024/2011 (Article 37) changed their legal status and extended their scope. According to the new legislation an association can be created and negotiate for the conclusion of an enterprise level agreement if at least 60 per cent of the firm’s employees participate, regardless of the firm’s size. The outcome of this negotiation (agreement) has the following characteristics: (a) precedence over sectoral and occupational agreements, even if it involves less favourable terms, thus abolishing the principle of the most favourable arrangement (Article 37.5); (b) compliance with the wage and

non-wage settlements of the EGSSE; and (c) no time limit with regard to its coverage.

Under this legislative regime the collective bargaining process presents a different dynamic compared with the pre-crisis dynamic in terms of number and types of agreements signed. More specifically, in 2012 the number of agreements reported to the Labour Ministry had altered as follows:

- 29 sectoral or occupational agreements at the national or local level;
- 976 enterprise agreements covering workers in a single enterprise (up from 238 in 2010, and 179 in 2011). It is worth noting that 73 per cent of all enterprise agreements were signed by Associations of Persons, while only 17 per cent were signed by enterprise unions, and 10 per cent were due to local or sectoral collective agreements.

The wage bargains concluded under the new regime suggest that, in effect, Associations of Persons worked like a Trojan horse in facilitating wage reductions. It bears noting that among the enterprise agreements signed in 2012, there was wide disparity in outcomes, depending on whether the bargaining unit from the labour side was the newly formed Associations of Persons or the pre-existing enterprise unions. Thus, while only 4 per cent of agreements signed with an enterprise union involve wage reductions, the corresponding measure rises to 65 per cent in the case of Associations of Persons.

The ILO's report on the High Level Mission to Greece (September 2011), highlighted the negative impact that the Associations of Persons may have on the role of the industrial relations system and its institutions as:

The association of persons are not trade unions, nor are they regulated by any of the guarantees necessary for their independence. The High Level Mission is deeply concerned that the conclusion of "collective agreements" in such conditions would have a detrimental impact on collective bargaining and the capacity of the trade union movement to respond to the concerns of its members at all levels, on existing employers' organizations, and for that matter on any firm basis on which social dialogue may take place in the country in the future (ILO, 2011).

- (ii) Abolition of the *extension principle* (i.e. the application of collective agreements to non-members of the signing parties) regarding the sectoral and occupational collective agreement's validity. This regulation (Article 37.6) enables the "decentralization" of the collective bargaining process, since

it restricts the binding of sectoral and occupational agreements only to the parties that are members of the signatory trade unions and employer's organizations.

The above two legislative interventions reinforce each other towards the *individualization* of agreements, as the establishment of Associations of Persons disempowered the trade unions. Moreover, it allowed non-member employers to acquire an "unfair" advantage over the member employers thus propagating an inefficient mode of competition. The reform of the collective bargaining mechanism was strengthened in 2012 after the passage of Laws 4046/2012 and 4093/2012. Both Laws were designed in order to remove rigidities in the labour market and under the pressure to restore competitiveness and export-oriented growth. The Law 4046/2012 led to substantial weakening of sectoral and occupational bargaining through the:

- time limit on the maximum length of collective agreements, by the abolition of the option for indefinite time validity – collective agreements can be in force at a minimum for one year and at a maximum of three years;
- time limit on the maximum length of continuance of collective bargaining agreements; it involves the shortening of the period of validity of collective agreements from six to three months after the expiration or termination (*kataggelia*) thereof. The settlements that continue to apply after the expiration of continuance are related to the basic wage and four allowances (for length of service, dependent children, education and hazardous work).

The above legislative regulations introduced changes in bargaining behaviour. One can notice that until 2009, it was the labour side trying to speed-up the signing of new collective agreements in the expectation (usually realized) that the new agreement would provide for better pay and employment conditions. In 2012, it is observed that employers took the initiative by pushing for the termination (*kataggelia*) of existing collective agreements and the signing of new ones containing unfavourable terms or the signing of "individualized" types of agreements.

Law 4093/2012 completed the legislative interventions of deregulation of the collective bargaining mechanism, aiming at its core, meaning the National General Collective Agreement. Its provisions have paved the way for (i) substantial weakening of the EGSSE through the abolition of its universal nature and (ii) abolition of EGSSE as a mechanism for setting the MW (analysed

in the following section). According to the Law, the universal coverage of EGSSE is limited only to the agreed minimum settlement (between social partners) on non-wage issues. The wage agreements are binding only for the employees/workers that are employed by members of the signatory employers' organizations. This regulation finalizes the abolition of the *extension principle*, which was initially applied to the sectoral and professional agreements by Law 4024/2011 (analysed above). It is obvious that, in terms of competition among employers, the above amendments do not create a level playing field.

At the same time, the interventions have created a bleak environment for workers. The number of MW workers seems to have increased in the case of non-signatory firms, which are not restricted by the collectively bargained outcomes, and have shifted to enterprise agreements. In this context, among the enterprise agreements signed in 2012 – which until 2009 were typically used by the labour movement as a way to gain improvements in pay and working conditions – a large proportion (49 per cent) stipulated wage adjustments towards the minimum pay limits set by the EGSSE, which most likely meant downward adjustment, since sectoral wages were higher than the minimum rates specified by the EGSSE. The proportion of agreements involving a pay rise were less than 1 per cent, whereas 16 per cent involved no changes in pay, 19 per cent involved direct wage reductions and the rest (about 15 per cent) focussed on non-wage issues (e.g. working-time arrangements, worker evaluation protocols) and probably involved small wage adjustments (Ioannou and Papadimitriou, 2013). In the case of wages determined in sectoral and occupational agreements, figures show that they were drastically reduced. More specifically, a large proportion (48 per cent) of the sectoral and occupational agreements signed in 2012 involve wage reductions, while 24 per cent involve no wage changes, and 26 per cent involve wage increases (OMED, 2013).

#### 4.1.2 Deregulation of institutions supporting the collective bargaining process

The legal framework governing mediation and arbitration (i.e. all the procedures that support the mechanism of collective bargaining in case of dispute on the determination of wage and non-wage settlements) was gradually reformed following two rounds of legislative interventions under Laws 3899/2010 and 4052/2012. The amendments introduced by the two laws were related to (i) the procedure of appeal to the Organization for Mediation and Arbitration, (ii) the use of arbitration

and (iii) the restructuring of the Organization for Mediation and Arbitration (OMED). Thus:

- The new legislative framework abolished the right of unilateral recourse to arbitration. The provisions in Law 4052/2012 superseded both the corresponding provisions in Law 1876/1990 allowing for unilateral recourse, as well as the exemptions for unilateral recourse, stated in Law 3899/2010.<sup>27</sup> Since 2012, resorting to arbitration may take place exclusively if there is mutual consent of the parties.
- The content of the arbitration decision is limited to the determination of basic wages, while other issues (working conditions, benefits) may be determined by a collective agreement as the process of collective bargaining may be carried out at the same time.
- The arbitration decisions should take into account the specific firm-based economic and financial data and the general economic conditions, as well as the priorities of enhancing competitiveness and reducing unit labour costs adopted during the fiscal adjustment programme.
- The composition of the board of OMED changed to comprise nine members of bipartite representation; four from the employers' organizations, four from the labour side (GSEE), and the President, chosen by unanimous decision of the members representing the social partners.<sup>28</sup> In addition, a representative of the Ministry of Labour participates as an observer with no voting rights.

#### 4.1.3 Changes in the minimum wage institution

The deep structural reform in MW setting and coverage established a new context, where the role of the state and social partners has been modified. The pre-crisis freely bargained MW scheme was abolished, although it enjoyed continued support by the social partners and it was considered to deliver an "efficient" outcome (at least during the growth period), in the sense that the resulting agreements balanced the income concerns of workers with the profitability and business survival concerns of employers (Fotoniata and Moutos, 2010). The

27. According to the memorandum law 3899/2010, resorting to arbitration unilaterally was possible for each party if (i) the other had refused mediation; (ii) both parties participated in the mediation process.

28. Until 2013 the board of OMED comprised seven members – three from each of the social partners and the President. The increase to four members from each side was necessitated by the desire of the Association of Greek Tourism Enterprises to have their representative on the board.

reform of the MW framework lasted for almost two years from 2010 to 2012 and was a direct application of the internal devaluation policy through deregulation of collective bargaining. It followed three discrete modifications: (i) age-based discrimination and wage-freezing in nominal terms; (ii) wage reductions; and (iii) setting by statute.

Under the first MoU (Law 3845/2010, Annex IV) the Greek government adopted legislation on the MW to introduce sub-minima in order to “promote employment creation for groups at risk such as the young and long term unemployed”. The new provisions were targeted at the entry-level workers in the labour market and at apprenticeships, by determining the terms of employment, compensation and social security contribution for employees below 25 years old. In this context the following reforms were implemented: (i) for unemployed persons up to 24 years old a minimum rate was introduced at 80 per cent of the full rate (determined by the EGSSE), while the social security contributions were paid by OAED, and the maximum duration of such contracts was set at 12 months (Law 3845/2010; (ii) for workers entering the labour market for the first time and aged below 25 years old a minimum rate was introduced at 84 per cent of the full rate, and provision for an automatic admission of the participating enterprises to the OAED’s Programme regarding the subsidy of the employer’s social security contributions (Law 3863/2010); and (iii) for 15–18-year-olds who are on apprenticeships (up to one year) a minimum rate was introduced at 70 per cent of the full rate (Law 3863/2010). At the same time, there was a provision (Law 3845/2010) that the full minimum rate would remain fixed in nominal terms for three years.

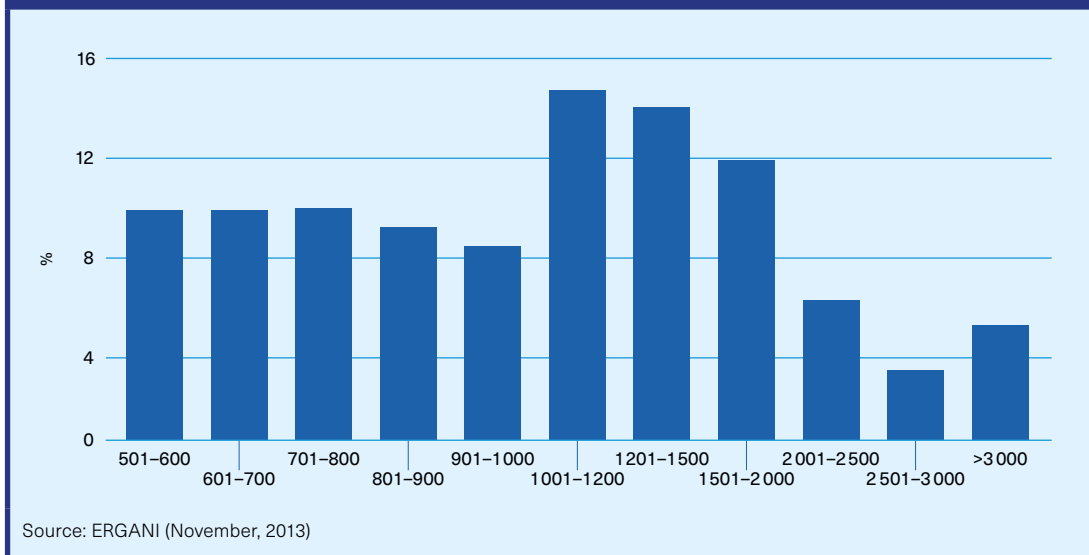
The subsequent institutional framework adopted in 2012 (Law 4046/2012 and Decision 6/28.2.2012) provided (i) a decrease of the MW level determined by the last National General Collective Agreement (signed in 2009) by 22 per cent at all levels (seniority, marital status and daily/monthly wages), until the end of the programme period; (ii) an additional 10 per cent reduction for workers under the age of 25 (with no exemptions); and (iii) a freeze of wage increases based on length of service (tenure) until the unemployment rate falls below 10 per cent. These reforms, according to the government’s expectations, would “permit a decline in the gap in the level of the MW relative to peers (Portugal, Central and South-East Europe)” and would “help address high youth unemployment and employment of individuals on the margin of the labor

market” (Law 4093/2012, Appendix V\_1). Given the Troika’s and the Greek government’s priority to restore competitiveness through adjustments of wage floors, one would hope that these changes would boost Greek exports. However, the lacklustre performance of Greek exports since these policies came into effect suggests that wage costs may not be a significant determinant of Greek firms’ competitiveness; reduction of non-wage costs – which remain elevated – and the long-awaited product-market reforms may prove to be a more appropriate intervention for boosting Greek exports.

The main structural reform in the MW mechanism was implemented during the third phase of reform through the abolition of the determination of MW as a bargaining outcome of the National General Collective Agreement (Laws 4046/2012 and 4093/2012). The new MW design is considered to be a legislative measure based on governmental evaluations of labour market performance and economic conditions. The level of the MW is now set by administrative act, where the role of the social partners is reduced to basic non-binding consultation. It is worth mentioning that all social partners (both employers’ associations and trade unions) directly questioned the MW reforms (decrease in nominal terms and statutory) and maintained a common position by calling for a return to the previous regime. In this context, the negotiations for the National General Collective Agreement (EGSSE) for the year 2014 (restricted to non-wage issues) among social partners were actually an attempt to preserve the institution of collective bargaining. Consequently, a provision was introduced stating that, if the legislative framework changes while the current EGSSE is in force there must be a new round of negotiations for the determination of a new MW level.

The incidence of MW workers is large in total wage employment. Although there are no official data on the number of MW workers, Dolado et al. (1996) and Fotoniata and Moutos (2010) estimate the pre-crisis proportion of employees remunerated at, or near, the MW to be about 20 per cent. An update of this share can be found by consulting the statistical data provided by the Information System ERGANI (in force since March 2013, under the responsibility of the Ministry of Labour and Social Insurance). More specifically, according to the data for November 2013, the number of employees in the private sector earning the MW was recorded at 1.37 million, of which about 1.1 million were full time and about 277,000 part time or in job rotation. Data on wage distribution are only available for full-time workers and are presented in figure 4.1.

**Figure 4.1 Distribution of monthly wage earnings, November 2013 (euros)**



As can be seen in figure 4.1, almost 20 per cent of employees were paid in the wage range €501–€700 (gross). The gross MW stood at €586.08 for workers aged over 25 years and at €510.95 for those less than 25 years old. However, since the MW in Greece depends on the employee’s length of service and marital status, there were a few MW workers earning €601–€800 per month. For this reason 20 per cent can be regarded as a reasonable approximation of the proportion of workers whose pay is directly determined by the nationally set MW rates.

The current MW regime (statutory) is a transitional system, as the Greek government decided on a new MW scheme (in force after 2016), which is set out in Law 4172/2013. Comparing the future system to the corresponding systems of other European countries, one can remark that its design has been based on Britain’s Low Pay Commission. However, it will have some differences from the British design, mainly regarding the role of social partners. More specifically, under the future MW regime a process of consultation among social partners will coexist along with a Commission (to be established and appointed by the government) and a team of experts to provide scientific support, while the social partners will be directly represented in the Low Pay Commission.

#### **4.2 The wage system in the public sector**

Traditionally, Greece displayed a sizable public wage premium, which some studies placed at above 50 per cent in the late 1990s (Papapetrou, 2006). More recently, Christopoulou and Monastiriotis (2013) reported an

estimate of around 32 per cent for 2005. However, such high premiums may reflect the fact that the skills and characteristics of public sector employees differ from those of private sector employees. Thus, Christopoulou and Monastiriotis (2013) also report a pre-crisis public wage premium adjusted for individual characteristics of 11 per cent, which still reveals significant differences in the valuation of characteristics (structure of returns) between sectors.

The legislative interventions introduced within the framework of the support mechanism under the first MoU did not change the pre-existing wage-setting mechanism in the public sector, but imposed large-scale pay cuts for both civil servants and wider public sector employees. Wages in the public sector are determined by governmental decision (decree issued by the Minister of Finance) in the context of budgetary policy, with no previous formal bargaining between the government and the employees’ associations. Under this regime, the Confederation of Civil Servants (ADEDY) traditionally acted as a pressure group rather than as a trade union (Dedousopoulos et al., 2012). One can record three major waves of public wage reform. In 2010, through Laws 3833/2010 and 3845/2010, wages for civil servants and in the broader public sector were cut horizontally by 10 per cent and there was a 30 per cent reduction in the 13th and 14th wages,<sup>29</sup> and a 12 per cent reduction in supplementary wages. The introduction of a unique public sector remuneration

29. Wage agreements in Greece stipulated a monthly wage which, by law, was to be paid 14 times per year. The 13th and 14th wage payments are not bonuses, and are usually paid along with the regular monthly wage in December and August.

system in 2011 (Law 4024/2011) induced further wage reductions as well as the abolition of the most non-basic benefits, for specific categories of employees among civil servants. Finally, Law 4046/2012 constituted the last phase of reform and regulated issues regarding (i) the coverage of the remuneration system in order to include the employees in the wider public sector (which were excluded in the previous phase) and (ii) the abolition of the 13th and the 14th wage payments for all civil servants and employees in the wider public sector.

How have the reductions in public sector wages affected the unadjusted public wage premium? Using Labour Force Survey data for 2009–13, Christopoulou and Monastiriotis (2014) found that the unadjusted public wage premium (which, in 2009, was 28.2 per cent in terms of monthly wage income and 46.0 per cent in terms of imputed hourly wages) rose between 2009 and 2011, declined notably in 2012, but recovered somewhat in 2013 (27.5 per cent and 36.5 per cent, respectively, for that year). They also calculated the adjusted (for individual characteristics) public wage premium, which rose from 8.8 per cent in 2009 to 11.6 per cent in 2010 and 14.6 per cent in 2011, and then declined to 9.6 per cent in 2012 and 9.3 per cent in 2013.

### 4.3 Impact on wages and living conditions

The legislative interventions in the labour market resulted in a sharp reduction in wages and living standards for all types of employees. Table 4.1 depicts the changes in wage earnings for different types of employees. The

cumulative decrease in gross nominal earnings for the total economy from 2009 to 2013 was 18.9 per cent, whereas the corresponding reduction in real terms was 25.2 per cent. As a result, unit labour costs for the total economy declined by 18.2 per cent (from 2009 to 2013), and by 23.9 per cent for the business sector.

Table 4.1 also reveals that the biggest reductions were experienced by employees in public utilities; these employees enjoyed significantly higher wages than civil servants or private-sector employees before the crisis. Central government employees faced the smallest reductions, while non-bank private sector employees suffered declines larger than the economy average. This was mainly a result of about 1,400 enterprise agreements signed between October 2011 and the end of 2013 – note that more than 80 per cent of the cumulative decrease in earnings of private sector employees took place in 2012 and 2013. Figure 4.2 verifies the above results by showing a different categorization of activities. Employees in services suffered the smallest declines, whereas employees in building and construction suffered the largest. The extraordinarily high reduction in compensation in building and construction (by 75 per cent from 2008 to 2013) probably also reflects the changing composition of the labour force in that sector, i.e. far fewer engineers.

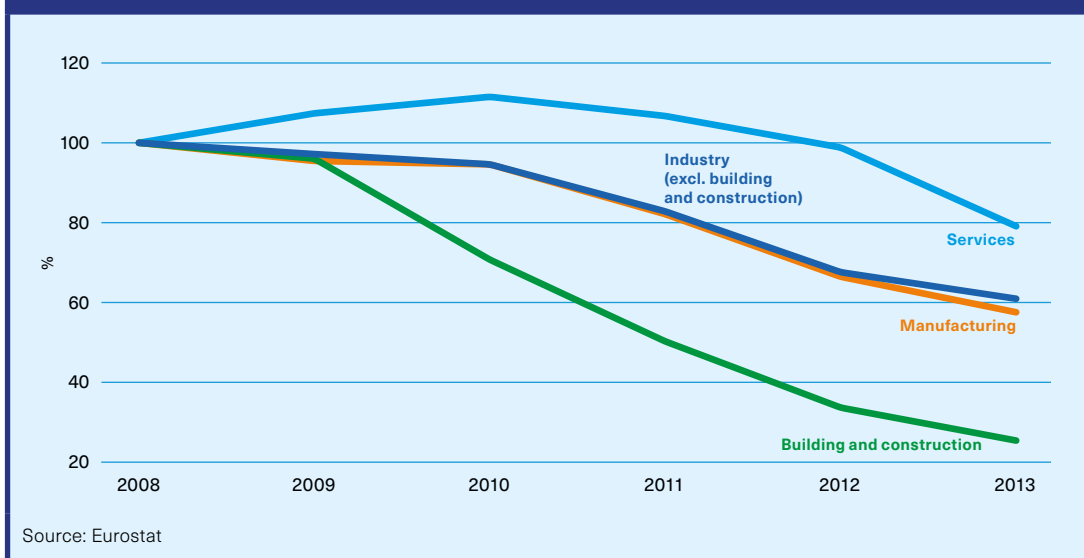
At the same time, the new regulations dramatically reduced the MW, especially for young workers. As shown in table 4.2, in the case of married (unmarried) workers under 25 years old, the annual losses in wage incomes are calculated to be €4,418.30 (€3,366.20), which correspond to 5.35 (4.48) monthly wages (out of 14 wages per annum). The figure for married

	2007	2008	2009	2010	2011	2012	2013	Aggregate change 2009–13
<b>Average gross earnings (nominal)</b>								
Total economy	5.2	6.2	4.6	-4.6	-1.7	-6.6	-7.4	-18.9
Central government	3.8	7.1	5.2	-7.7	-0.5	-3.8	-4.8	-15.9
Public utilities	7.1	8.2	7.7	-5.5	-7.9	-9.5	-10.0	-29.1
Banking sector	8.9	0.0	3.7	-1.8	0.1	-7.5	-10.0	-18.2
Non-bank private sector	6.1	6.5	2.8	-2.9	-1.7	-9.3	-8.0	-20.4
<b>Average gross earnings (real)</b>	<b>2.2</b>	<b>1.9</b>	<b>3.3</b>	<b>-8.9</b>	<b>-4.7</b>	<b>-7.6</b>	<b>-6.7</b>	<b>-25.2</b>
<b>Unit labour costs</b>								
Total economy	4.5	8.7	6.4	-2.1	-1.1	-8.1	-8.1	-18.2
Business sector	5.3	7.9	4.4	-1.1	-3.5	-12.3	-9.0	-23.9

Source: Bank of Greece (2014)



**Figure 4.2 Nominal compensation of employees by activity (per cent, 2008 = 100)**



**Table 4.2 Gross minimum wage before and after legislative regulations (Laws 4046/2012 & 4093/2012)**

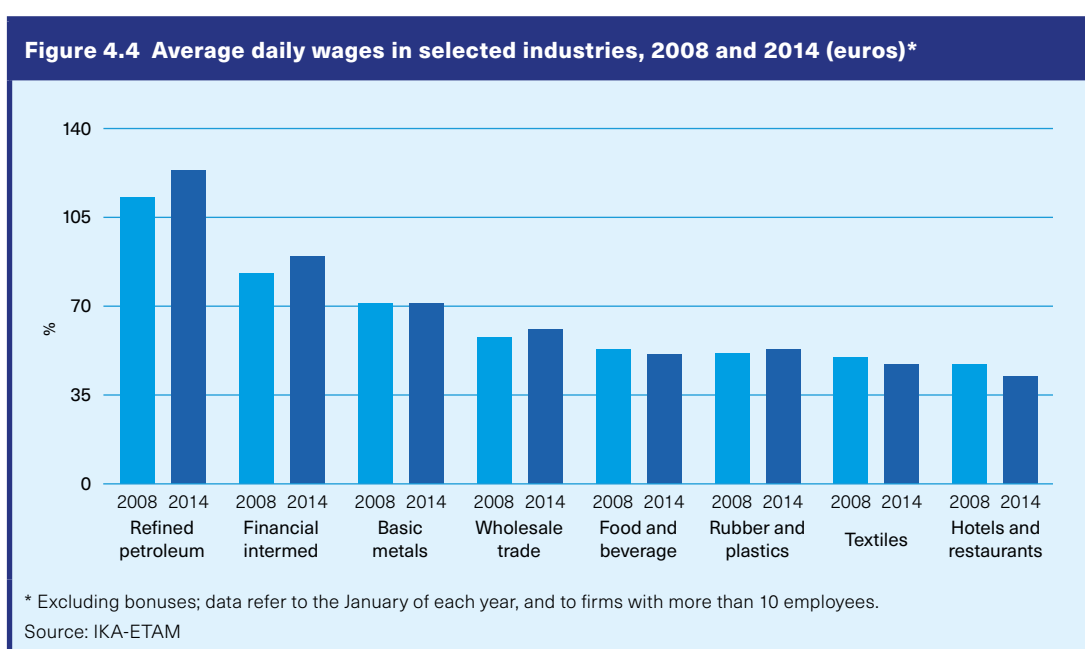
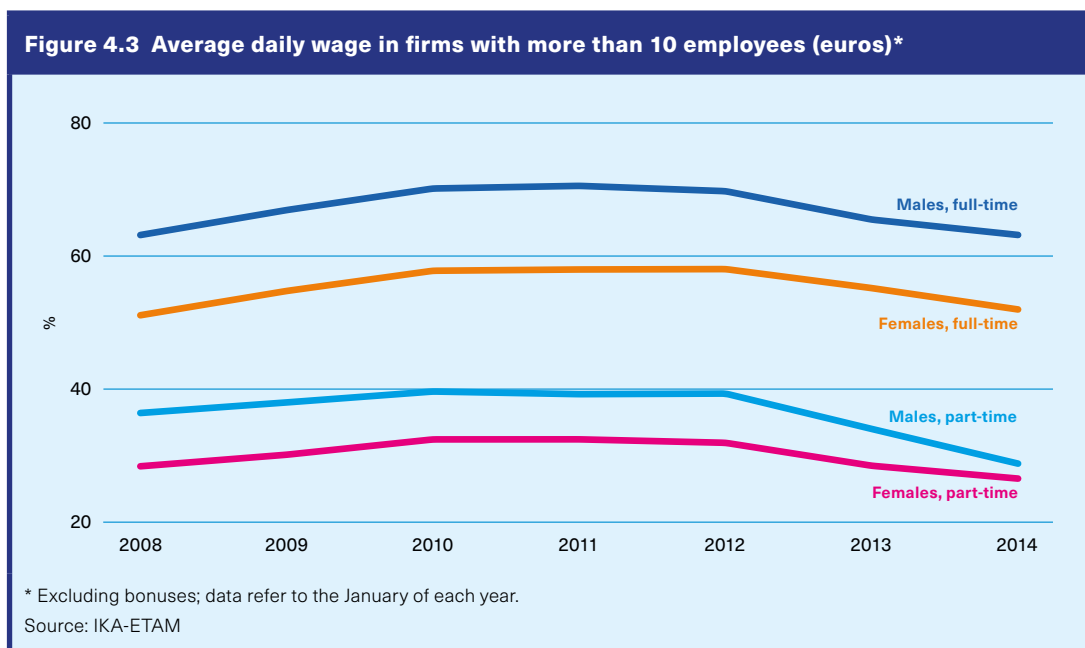
	Gross nominal wage (€)	Months	Gross annual earnings
<b>1. Under 25 years old, unmarried; length of service 0–3 years</b>			
EGSSE (2009, before reforms)	751.39	14	10 519
Losses in wage earnings (after reforms)	-240.44	14	-3 366.2
Annual losses (in terms of number of wages)			4.48
<b>2. Under 25 years old, married; length of service 0–3 years</b>			
EGSSE (2009, before reforms)	826.54	14	11 572
Losses in wage earnings (after reforms)	-315.59	14	-4 418.3
Annual losses (in terms of number of wages)			5.35
<b>3. Over 25 years old, unmarried; length of service 0–3 years</b>			
EGSSE (2009, before reforms)	751.39	14	10 519
Losses in wage earnings (after reforms)	-165.31	14	-2 314.3
Annual losses (in terms of number of wages)			3.08
<b>4. Over 25 years old, married; length of service 0–3 years</b>			
EGSSE (2009, before reforms)	826.54	14	11 572
Losses in wage earnings (after reforms)	-240.46	14	-3 366.4
Annual losses (in terms of number of wages)			4.07

Source: INE/GSEE (2013)

(unmarried) workers aged over 25 years old is also very large, recording annual losses of €3,366.40 (€2,314.30) which in turn correspond to 4.07 (3.08) monthly wages.

Figure 4.3 shows the evolution of the average daily wage in firms with more than 10 employees according to data from The Social Insurance Institute (IKA) which covers

mainly private-sector employees. Wages for full-time employees have not fallen relative to their level in 2008, whereas wages for part-time employees – especially males – have dropped considerably. A possible explanation for this is due to the fact that the data exclude bonuses, which probably have declined considerably,



and which are mainly paid to full-time employees. It may also reflect the fact that firms may not be willing to cut wages of workers with high human capital (general and firm-specific) – usually such workers are full-time employees.

It is interesting that the crisis has been accompanied by a widening of wage differentials across sectors. In Figure 4.4 it can be observed that in industries with high average daily wages there was a wage *increase* between 2008 and 2014; in contrast, in (many of the) industries with low average wages there was a decrease in wages during the same period. A likely explanation for this differential development across industries may relate to the fact that the incidence of minimum-wage

workers is higher in low-wage industries, thus the fall in the MW had more of an impact on low-wage industries than on high-wage industries. However, this explanation would justify a smaller fall in average wages for the high-wage industries, and not a rise in wages. To explain the latter, knowledge of the evolution of profitability in these industries would be required; unfortunately there is no access to such data.

According to the data provided by ELSTAT (table 4.3), poverty and inequality indicators moved up steadily during the last four years, recording a sharp worsening in living conditions. In 2012, 23.1 per cent of the population was below the poverty threshold. The standard poverty line (60 per cent of median income)

**Table 4.3 Poverty and inequality indicators, 2008–12**

<b>At risk of poverty rates by gender and age (%)*</b>						
<b>Age</b>	<b>Gender</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>
Total	Total	20.1	19.7	20.1	21.4	23.1
	Males	19.6	19.1	19.3	20.9	22.5
	Females	20.7	20.2	20.9	21.9	23.6
0–17	Total	23.0	23.7	23	23.7	26.9
18–64	Total	18.7	18.1	19.0	20.0	23.8
65+	Total	22.3	21.4	21.3	23.6	17.2
<b>Poverty threshold (€)</b>						
Single-person households		6480	6897	7178	6591	5708
Two-person households and two dependent children			14484	15073	13841	11986
<b>Anchored poverty rates, 2009 (%)*</b>			<b>2009 (relative)</b>	<b>2012</b>		
<b>Total</b>			<b>20.0</b>	<b>37.0</b>		
<b>Labour market status</b>						
Unemployed			32.2	57.8		
Employee (private firms excl. banking)			9.3	23.9		
Employee (public sector + banking)			0.2	3.6		
Liberal profession			4.5	8.7		
Own-account worker			13.4	27.4		
Farmer			38.9	52.0		
Pensioner			23.4	33.5		
Student			22.1	42.9		
Others not in the labour force			25.6	39.0		
Gini index		33.4	33.1	32.9	33.5	34.3
S80/S20		5.9	5.8	5.6	6	6.6

\* This is calculated after taking into account the social transfers received.

Source: ELSTAT and Matsaganis (2014)

for a single-person household decreased from €6,480 (annual earnings) in 2008 to €5,708 in 2012. Looking at poverty by age group, 23.8 per cent of the economically active population (18–64) was below the poverty line in 2012 (18.7 per cent in 2008), while the elderly seem to have improved their relative position. It must however be mentioned that, “funding cuts and other changes in health care (not considered in the calculation of the indicator) may have raised the costs of services and other barriers to access for those depending on them, among which of course the elderly feature prominently” (Matsaganis, 2013). During the crisis, poverty has increased more steeply in the case of men than of women, since men suffered larger job losses.

The above rates are much higher if the estimate is based upon the proportion of the population below a fixed

poverty threshold, set at 60 per cent of the 2009 median equalized disposable income, adjusted for inflation. In 2012 the proportion of the population with incomes below the 2009 poverty line (in real terms) was 37 per cent, recording an increase by 17 percentage points for the period 2009–12. The group most severely hit by the crisis is the unemployed, with 57.8 per cent being below the 2009 poverty line. The group of employees engaged in the private sector (excluding banking), which was mostly affected by the legislative interventions, faces one of the largest increases in poverty. A proportion of 23.9 per cent of employees in this category fell below the 2009 poverty threshold in real terms. Public-sector employees form the second group that suffered significant losses in wage incomes by the labour market reforms. Although this group registers a lower rate of

**Table 4.4 Income shares by population deciles**

Decile	2008	2009	2010	2011	2012
1 (poorest 10%)	2.4	2.4	2.6	2.3	1.8
2	4.5	4.6	4.6	4.4	4.3
3	5.7	5.9	5.7	5.6	5.6
4	6.9	7.0	6.9	6.7	6.8
5	8.0	8.0	7.9	7.9	8.2
6	9.2	9.1	9.2	9.3	9.5
7	10.5	10.5	10.6	10.8	10.7
8	12.3	12.3	12.1	12.5	12.7
9	15.1	15.0	14.9	15.1	15.3
10 (richest 10%)	25.4	25.4	25.4	25.1	25.1

Source: Eurostat

poverty (3.6 per cent), its position has deteriorated considerably during the period 2009–12. Finally, as both inequality indicators – Gini index and S80/S20 – suggest, inequality increased significantly during the crisis. The fact that the indicator S80/S20 records the highest increase (an increase of 11.9 per cent, against a 2.7 per cent increase for the Gini coefficient from 2008 to 2012) implies that the changes mostly affected the two ends rather than the middle of the distribution.<sup>30</sup>

The rise in income inequality has also been reflected in the decrease of the proportion of total income accruing to the poorest decile. Table 4.4 reveals that the poorest population decile decreased its share of total income from 2.4 per cent in 2008 to 1.8 per cent in 2012. The share of the richest decile did only marginally worse, recording a slight reduction from 25.4 per cent in 2008 to 25.1 per cent in 2012. The reduction in income shares during the crisis was experienced by the four lowest deciles (the poorest records the highest decrease) and the richest one.

30. The Gini index is considered to be sensitive to changes in the middle of the distribution.

# Active labour market policies (ALMPs)

5

The rationale behind the implementation of active labour market policies (ALMPs) in many OECD countries rests on the sensible assumption that the labour market is fraught with inefficiencies, thus government intervention is needed to increase employment opportunities for jobseekers and to improve the balance between jobs available and qualified employees. However, there is no consensus regarding the type of particular policy measures that are most effective in improving the labour market prospects of the targeted population.<sup>31</sup> Nevertheless, there only seems to be some consensus with respect to which measure has failed to deliver, and that is early retirement schemes, which appear to be costly (but politically popular) without creating additional employment prospects for younger workers (Ecorys, 2012). Recent literature (e.g. Brown and Koettl, 2012) suggests that properly structured ALMPs can be cost-effective from a longer-term perspective (3–10 years), and some of them may even be self-financing. In addition, Kluge (2010), in his meta-analysis of more than 100 evaluations that have been conducted on ALMPs by European countries, concluded that the type of the programme was the most important factor for the programme's effectiveness.<sup>32</sup> More specifically, his findings can be summarized as follows:

- (i) Traditional training programmes are found to have a modest likelihood of recording a positive impact on post-programme employment rates.
- (ii) Private-sector incentive programmes (such as wage subsidies to private firms and start-up grants), and services and sanctions (i.e. all measures aimed at increasing job search efficiency, such as counselling and monitoring, job search assistance, and corresponding sanctions in case of noncompliance) show a significantly better performance.
- (iii) The target group seems to matter, as programmes aimed specifically at young workers fare significantly worse than programmes targeted at adults.

- (iv) Direct employment programmes in the public sector are rarely effective and are frequently detrimental to participants' employment prospects.

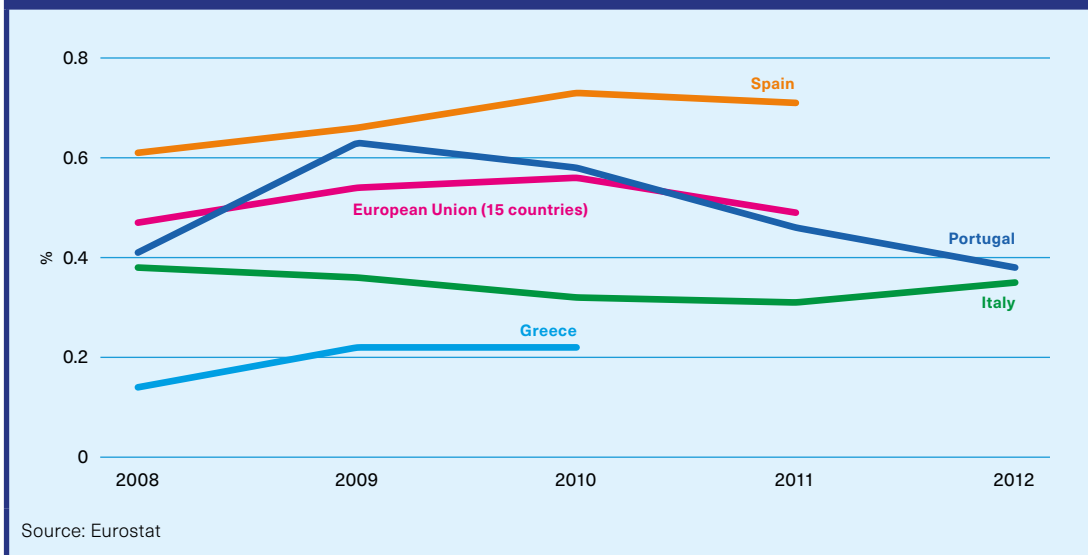
ALMPs are the type of government expenditure where Greece still lags significantly behind other European countries. Although during the last three decades Greece had higher unemployment rates – especially long-term unemployment – than most of the EU15, its public expenditure on ALMPs never exceeded 0.4 per cent of GDP, and it was less than 0.25 per cent most of the time. In contrast, many of the EU15 spent more than 0.8 per cent of their GDP on such programmes, whereas some countries (e.g. Denmark, Netherlands) regularly spent more than 1.2 per cent. Greece's under-spending on ALMPs continued during the crisis, both as a share of GDP, and in expenditure per person wanting to work (in purchasing parity standard (PPS), see figures 5.1 and 5.2). The same was true for all types of labour market policies (LMPs) – which include passive labour market policies (PLMPs) such as out-of-work income maintenance and support and early retirement. For example, according to Eurostat, in 2010, Greece was spending 0.96 per cent of its GDP on LMPs, whereas among the EU15 countries none spent less than 1.8 per cent and some were spending more than 3 per cent (Belgium, Denmark, Ireland, Spain). The same discrepancy was true for LMP expenditure per person wanting to work (in PPS) in 2010: Greece spent €3,200, whereas no other country spent less than €4,700, and there were some countries which were spending more than €15,000 (Belgium, Denmark, Netherlands, Finland). As a result, among EU countries Greece has one of the lowest number unemployed and inactive persons enrolled in education and training (OECD, 2010).

ALMPs in Greece are managed through the Manpower Employment Organization (OAED). Since the beginning of the crisis, the OAED has tried to increase the number and diversity of programmes designed to reintegrate people with previous employment experience, provide training and incentivize the hiring of first-time employment seekers. Most of the programmes take the form of either allowing the enterprises to pay sub-MW

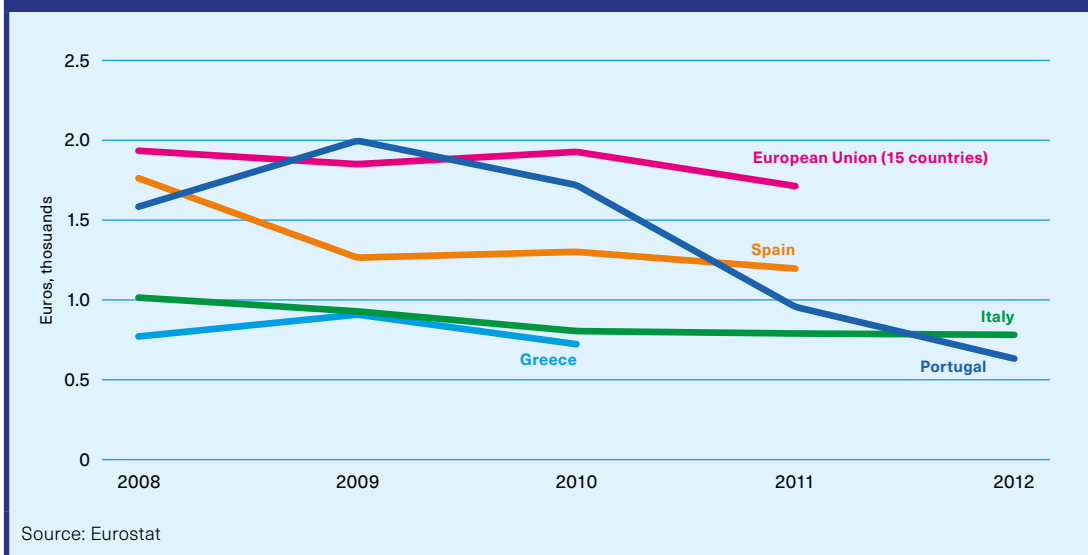
31. See, e.g. the early evaluation of Heckman et al. (1999).

32. None of the evaluations examined concerned a Greek programme.

**Figure 5.1 Spending on ALMPs (per cent GDP)**



**Figure 5.2 Spending on ALMPs in PPS per person wanting to work (euros)**



or receive wage subsidies (usually through reductions in social security contributions). In addition, OAED provides financial support to the young and disabled to start their own business or to become self-employed. (It is estimated that among the persons participating in ALMPs since the start of the crisis, about 70 per cent were in programmes that could be classified as involving employment subsidies, whereas the rest were in programmes that could be classified under the term “entrepreneurship incentives”.) Listed below under three categories are the programmes used by OAED since the start of the crisis. (Obviously, the existence of interdependencies creates complementarities between the various programmes, i.e. a programme designed to sustain labour demand may also make it easier for the unemployed to find jobs through the existence of aggregate demand externalities.)

#### A. Programmes for sustaining labour demand

- Programme subsidizing social insurance contributions for 200,000 full-time jobs (introduced in 2010 and no longer running). Firms participated in the programme for 50 per cent of the personnel they had at the time of application, to a maximum of 30 employees. The subsidy involved equals up to 100 per cent of the employers’ social security contributions and was received for 12 months –provided that the jobs were maintained for another 6 months. The programme allocated 45 per cent of the subsidized jobs to firms employing 2–9 persons, 30 per cent to those employing 10–49 persons, and 25 per cent for the larger firms. The programme excluded some sectors (e.g. cleaning and security services, crammer

schools, fishing and fish farming, agriculture) and was regionally segregated. The programme gave preference to workers aged above 50 and to workers with disabilities.

- Job preservation programme for 10,000 jobs in the tourism sector, providing a subsidy equal to 40 per cent of the employer's social insurance contributions under the proviso that hotels would convert from seasonal to continuous operation, and are located outside the Athens and Thessaloniki areas. The maximum duration of the subsidy is 12 months. It was introduced in 2012, and it is still open for applications.
- Programme subsidizing social insurance contributions (introduced in 2012, and still accepting applications). In these programmes the persons employed must receive a wage below €25 per day (€625 per month). The subsidy involved equals the full amount of the social security contributions (including those paid in favour of the supplementary pension funds) that would be paid by both the employer and the employee. The maximum duration of the subsidy per employee is 5 months, and the total sum that will be spent on this programme will be €90 million, implying that the maximum number of beneficiaries will be around 4,000 persons.

## **B. Programmes aimed at helping the unemployed find jobs**

- Subsidy programme for the hiring of 2,500 unemployed people nearing retirement. It was introduced in 2008, and it is still accepting applications. It concerns persons who do not have enough days (or years) of pensionable employment because they lack either up to 1,500 days (or 5 years) of employment. The maximum duration of the subsidy is 5 years. The subsidy is equal to €22 (per day) for the first year, and it rises gradually to €30 – under the proviso that the employee and the employer will pay social security contributions for at least 18 days per month. Part-time employment is also allowed provided that it is at least 4 hours per day; the subsidy is reduced accordingly in that case.
  - Subsidy programme (introduced in 2010, and still accepting applications) aiming at the recruitment of 25,000 unemployed people. The programme is mainly targeted at persons under 30 years old as well as at those who are near retirement age and do not have secured full pension rights due to insufficient days of employment – other target groups include women above 45 years old, and heads of single-parent families.
- It is also targeted at firms employing less than 50 employees, it excludes some sectors (e.g. cleaning and security services, fishing and fish farming, agriculture) and it is regionally diversified. Firms receive a subsidy between 70 per cent and 80 per cent of their social security contributions for 24 months, but in order to be eligible for the programme must provide employment for 36 months.
- Subsidy programme aimed at hiring 40,000 unemployed persons for 4 years by subsidizing social security contributions under the proviso that employers will maintain the employment of beneficiaries for another 12 months. It was introduced in 2010 and it is no longer accepting applications. The programme is mainly targeted at persons under 30 years old as well as at those who are near retirement age and do not have secured full pension rights due to insufficient days of employment – other target groups include women above 45 years old, and heads of single-parent families. It is also targeted at firms employing less than 50 employees, it excludes some sectors (e.g. cleaning and security services, fishing and fish farming, agriculture) and it is regionally diversified. The subsidy covers part of the social security contributions that would be paid by both the employer and the employee as follows: for the unemployed with previous work experience, 100 per cent for the first year, 75 per cent for the second, 50 per cent for the third, and 25 per cent for the fourth; for workers without previous work experience and other special categories (see previously listed programme) 100 per cent for the first two years, and 50 per cent for the last two years.
  - Various subsidy programmes (introduced in 2010 and 2011, some of which are still accepting applications) for unemployed persons, which concerned declining areas, former employees of enterprises which discontinued operations, businesses which were hit disproportionately by the crisis (e.g. hotels in the Athens area, firms in Macedonia and Thrace) as well as employees of certain employer and employee organizations (for enhancing their organizational skills). Usually these programmes were structured as marginal employment subsidies and involved the full subsidization of employer and employee social security contributions. A small number of subsidies intended to foster entrepreneurship among former employees were also available. The length of these programmes could be as long as 36 months. The maximum number of jobs which these programmes could (directly) create or maintain was about 3,500.

- Work experience programme for 10,000 new labour market entrants aged 16–24 years. It was introduced in 2010, and remains open for applications. The programme lasts for 12 months (phase A), and provides subsidies equal to the social security contributions corresponding to a wage equal to 80 per cent of the MW. If after 12 months the employer wishes to convert the work experience contract to a standard labour contract, a further subsidy (equal to 70 per cent of the stipulated social security contributions) will be granted for an extra 12 months, under the proviso that the employee is kept in employment for an extra 6 months without any subsidy. The programme excludes some sectors (e.g. cleaning and security services, fishing and fish farming, agriculture) and it is regionally segregated.
- Subsidy programme (introduced in 2012, but it is no longer accepting applications) for firms to hire 5,000 unemployed graduates of university and technical colleges (up to the age of 35) for 24 months. The employer received a subsidy for 24 months but had to provide employment for at least 27 months. The monthly subsidy was €20 per day for those aged less than 25, and €25 per day for those more than 25 years old. The programme was designed so as to work as a marginal employment subsidy, since it was full of clauses that made firms ineligible for the subsidy if they had previously, or during the programme's duration, fired some of their workforce. It was also designed so as to ensure a reasonable distribution of the beneficiaries across regions.
- Subsidy programme for employers to recruit and train 10,000 beneficiaries of the “labour market reintegration voucher” (introduced in 2011, and still accepting applications). This programme can last up to 30 months if training is provided, and it has clauses making it operate like a marginal employment subsidy. The subsidy is equal to the (up to 12 months) unemployment benefit that the unemployed would receive; after the unemployment benefit expires, and up to 24 months from the start of the programme the employer receives a subsidy equal to 90 per cent of the social security contributions (including those paid in favour of the supplementary pension funds) that would be paid by both the employer and the employee. In cases where training is provided, the employer receives 100 per cent of the social security contributions, and the total duration of the programme can reach 30 months. The programme excludes some sectors (e.g. cleaning and security services, fishing and fish farming, agriculture), it is regionally diversified, it does not have strong clauses so as to make it a marginal employment subsidy, and it remains in operation.
- Subsidy programme for enterprise entities belonging to municipalities and regions to hire 5,000 unemployed people aged 55–64 (introduced in 2011, but still accepting applications). The total duration of the programme for which a subsidy equal to €25 per day will be paid is 24 months – under the proviso that employment will be extended for another 3 months (27 months in total).
- Subsidy programme to aid the hiring of 2,300 unemployed people (2,200 full-time, 100 part-time). The programme is targeted at persons with disabilities, ex-addicts, ex-convicts, young delinquents or young people at social risk. It was introduced in 2010 and is still accepting applications. The duration of the programme is 36 months – under the proviso that the employee remains in (paid) employment for another 12 months. The subsidy equals the full amount of the social security contributions (including those paid in favour of the supplementary pension funds) that would be paid by both the employer and the employee.
- Subsidy programme for 50 jobs involving the ergonomic arrangement of workplaces for people with disabilities (introduced in 2010 and still accepting applications). The employer is subsidized up to 90 per cent of the cost, and up to €2,500 for each position created.

### C. Programmes aimed at fostering entrepreneurial activity

- Grant programme aiming at fostering entrepreneurial activity among 2,500 unemployed aged 22–64 years old (introduced in 2009 and no longer accepting applications). It allocated 50 per cent (€1,250) of the available funds to those aged 22–32 years old. The duration of the subsidy was 36 months, and the total subsidy was €24,000 – involving four instalments of €6,000 each, with the first payable at the start of the project. The programme was regionally differentiated and it excluded some sectors (e.g. cleaning and security services, seasonal firms, crammer schools, fishing and fish farming, agriculture).
- Grant programme aiming to foster entrepreneurial activity among 4,000 unemployed women aged 22–64 years old (introduced in 2009 and no longer accepting applications). The duration of the subsidy was 36 months, and the total subsidy was €24,000 – involving four instalments of €6,000



each, with the first payable at the start of the project. The programme was regionally segregated and it excluded some sectors (e.g. cleaning and security services, seasonal firms, crammer schools, fishing and fish farming, agriculture).

- Grant programme aiming to incentivize 6,000 young professionals (physicians, dentists, veterinarians, pharmacists, lawyers, engineers) to set up their private practice. The programme was introduced in 2009 (no longer running), it was regionally segregated and it allocated 60 per cent of the positions to females. The total grant was €15,000 – payable in three equal instalments – and the duration of the programme was 12 months. If the private practice remained in operation for another 12 months, then at the end of this extra period the professionals could receive another €5,000 grant. The age limit for physicians and females with one child was 42 years old; for the rest, 34.
- Subsidy programme for 800 new entrepreneurs, targeted at persons with disabilities, ex-addicts and ex-convicts aged 18–64 years. It was introduced in 2010 and is still accepting applications. The duration of the programme is 36 months, and the maximum subsidy is €28,000, of which €7,000 paid at the beginning, followed by six instalments of €3,500 each.

#### D. Training programmes

- Subsidy programme for firms to hire/train persons studying at technical colleges so that they receive the necessary hands-on experience for the granting of their degrees. The employers must pay the students a wage equal to 80 per cent of the MW, and receive as subsidy 50 per cent of the wages paid. This programme was introduced before the crisis and it is still accepting applications.
- Grants available to firms for the training of their workers. These grants have been available every year since 2008 and they are still operating, and have been targeted at firms employing up to 25 workers. The training programmes are normally offered by employer organizations, but trainees can attend either Greek or foreign universities, including the pursuance of either undergraduate or graduate degrees. The maximum annual grant that each firm can receive in 2014 is equal to about 0.3 per cent of its wage bill.
- Training vouchers (introduced in 2012, and still open for applications) for 18,332 unemployed persons, with emphasis on those aged 18–24, those above 55 years old and the long-term unemployed.

The training must be completed within two months. During this period the (unemployed) trainee receives, in addition to the training voucher (i.e. cost-free training), a lump-sum “study grant” equal to €500; trainees who received unemployment benefits lose access to them during the training period, but this period is counted as if in receipt of unemployment benefits. The allocation of the vouchers was regionally segregated.

- Training vouchers (introduced in 2012) for the training of 1,416 unemployed journalists, with emphasis on those aged 18–24, and those above 55 years old, and the long-term unemployed. The training involves 300 hours of teaching, and may be concluded within a period of 3 months (longer duration is not prohibited). During this period the (unemployed) trainee receives, in addition to the training voucher (i.e. cost-free training), a lump-sum “study grant” equal to €2,100 without losing access to unemployment benefits. The allocation of the vouchers is regionally segregated.

In addition to these training programmes, OAED has been providing education combined with on-the-job training to youths aged 16–23 years old – provided that they have completed 10 years of compulsory education. This is done in 51 Schools of Professional Training (EPAS) across the country, combining 24 hours of work/training with employers and 20 hours of school attendance (per week). Students receive 75 per cent of the MW, and employers receive a subsidy which reduces the cost of employing the students to about €150 per month (in 2014).

Before commenting on the scope, efficiency and suitability of these programmes in dealing with the unprecedented crisis Greece faces, it is important to note an undesirable characteristic of practically all programmes: they are exceedingly complex, very difficult to administer and often give the impression that political expediency has been paramount in their design.<sup>33</sup> To give an example of their complexity, it is enough to note that the “call” often runs to dozens of pages (in one case 50 single-spaced pages), making it very hard for interested people to navigate through and understand whether they are eligible or not. Moreover, given the large bureaucratic burden they impose on OAED, and the staffing problems OAED has been facing since the crisis began, it may not be easy to monitor whether the

33. Also, in many cases the training programmes, instead of imparting useful skills to the trainees, were in effect subsidies to maintain the trainers in employment (or to boost their incomes).

programmes are indeed implemented as intended.<sup>34</sup> As a result, many of these programmes were not taken up and remained seriously undersubscribed for a long time after their initial call. In addition, many employers were hesitant to apply for the subsidies due to the bureaucratic cost involved (especially for small firms), their reluctance to reveal data to the authorities (fearing that it may lead to a higher tax burden) and the requirement that they should maintain the subsidized jobs beyond the subsidy period.

Committing to maintaining the jobs subsidized beyond the subsidy period may make sense if employers expect a normal cyclical recession which will be followed by (relatively) rapid increases in aggregate demand for goods and services. Given that most employers were facing long-lasting (and often accelerating) decreases in the demand for their products, the – otherwise sensible – requirement that the subsidized employee should be kept in employment for an extra period became a strong disincentive for participating in the programme. It is thus not surprising that the deadlines of many programmes were extended more than once, and for many months due to lack of interest among the intended beneficiaries – for example, in many cases, months after the deadline, the approved-for-subsidy jobs were less than 50 per cent of the planned total and sometimes this percentage was lower than 20 per cent.

Given the enormity of the task involved (e.g. soaring youth and long-term unemployment rates, older workers in danger of not fulfilling the required years of employment in order to secure pension rights) and the meagre sums available, it is no wonder that resources were spread thinly over many tasks, possibly undermining the effectiveness of the policies undertaken. No studies are available which assess the effectiveness of the post-crisis ALMPs in Greece – although there have been press reports quoting the head of OAED as claiming in 2011 that the unemployment rate would have been higher by 3 percentage points if the ALMPs pursued by the OAED were not available. It is hard to gauge the validity of this claim, since it is probably based on a simple counting of the numbers involved in OAED programmes.

One notable study evaluating the pre-crisis ALMPs in Greece is by Dimoulas and Michalopoulou (2008). The authors analysed the effects of ALMPs in five Greek prefectures, and found evidence of significant

cream-skimming effects, and concluded that the programmes examined neither boosted the (post-programme) employment rates of various unemployment groups, nor had any effect on prefecture-wide unemployment rates. Other evaluations of the effects of the pre-crisis ALMPs conducted by the OAED (the organization administering these programmes) were more positive in their assessment. However, these studies paid little attention to indirect effects of these programmes (e.g. that the subsidized activities/persons may displace non-subsidized activities/persons). Moreover, the studies made no effort to compare the value of the presumed benefits with the financial costs involved in funding and administering the programmes.

A different way of estimating the contribution of ALMPs in Greece towards reducing unemployment is through an application of Okun's law, i.e. by estimating Okun's law for the pre-2008 period and projecting the expected rise in the unemployment rate forward given the GDP changes actually observed. A different method would be to estimate Okun's law including data after 2008. In both cases, the rise in the unemployment rate from 2008 to 2013 is significantly larger than what Okun's law would predict (see, e.g. Karfakis et al., 2013). If one wanted to use this yardstick – and this is a big *if*, given the uncertainty regarding applying estimates including “normal” periods to once-in-a-lifetime events – then ALMPs would appear to not have contributed to stemming the rise in the unemployment rate.

Nevertheless, it is not reasonable to adopt this conclusion since – as argued in Chapter 1, the recession faced by Greece is not the standard “garden-variety” recession, but one involving the coexistence of deep structural problems and a severe financial crisis. Regarding the latter, there is ample evidence in the literature (e.g. Jorda et al., 2011) that financial crises have an independent influence on the unemployment rate, both during the downturn and the recovery, thus seriously undermining any application of Okun's law for “predicting” the evolution of the unemployment rate during the crisis. Another reason why Okun's law may not be a reliable guide in assessing the success of ALMPs in Greece is that the post-2008 period was marked by significant changes in the strictness of EPL, in the structure of wage bargaining and in the use of part-time and job rotation contracts.

Given the meagre amounts that Greece spent on ALMPs during the crisis, is there any reason to believe that the stipulated objectives of the programmes financed – leaving aside the bureaucracy in Greece – could have been chosen in a better way? In

34. In 2010, Greece spent 20 times less (0.011 per cent of its GDP) on the administration of ALMPs than the EU28 average (0.246 per cent of GDP).

other words, could an equal amount of spending procure a better result by designing a different set of ALMPs? It is possible that the subsidizing of work-sharing could lead to a better result. A feature of all ALMPs pursued during the crisis is that no provision was made to pair work-sharing with the other objectives. Work-sharing naturally results in lower earnings for workers, and it may also prevent firms from adjusting optimally on both the flow and the stock dimension of the labour input (see Hart and Moutos, 1995). As a result, neither trade unions (usually keen to protect the incomes of their senior members who face a lower probability of dismissal) nor firms may be willing to engage in work-sharing.<sup>35</sup> Financial incentives (e.g. reductions in social security contributions paid by both employers and employees in firms practising work-sharing) may thus be needed to induce both parties to make greater use of it. Work-sharing may be particularly useful in cases of protracted recession, since it can prevent the loss of skills associated with long unemployment spells.

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35. The incentives for work-sharing from the firm's side are positively associated with the firm-specific human capital of its employees. This is because the firm would not wish to fire workers who may not be available for rehiring when the recession ends, thus facing the cost of training new workers. This implies that in countries with less firm-specific training (such as Greece), firms will be less keen to practice work-sharing in bad times than in countries with high levels of firm-specific human capital (e.g. Germany).

# Conclusion

On the face of it, since 2009 Greece has achieved remarkable success as far as correcting some of the economy's major imbalances. Indeed, Greece has moved from a government budget deficit of almost 16 per cent of GDP and an external deficit on current transactions of 14 per cent of GDP in 2009, to primary surpluses on both its government budget and its current external balance in 2013. This certainly classifies as an impressive adjustment in the annals of international economic history. It is also understandable that such an adjustment would take its toll on living standards and economic activity: from the first quarter of 2008 until the first quarter of 2014, Greek GDP fell by 25.5 per cent. In order to appreciate how large this drop in GDP has been, it suffices to mention that Maddison's (2010) data indicate that the average drop in GDP for 12 Western European countries between 1939 and 1946 (the year when GDP fell to its lowest level) was 23.3 per cent. Naturally, such a collapse in output has gone in tandem with extremely high unemployment rates (27.3 per cent in 2013), and large reductions in the standard of living even among those that remain in employment.

Judged by the early predictions regarding Greece's adjustment programme, e.g. the IMF's first review of the adjustment programme in September 2010 (IMF, 2010), the actual developments regarding the fiscal and external balances were very close to (or better than) the predicted outcomes – aided partly by debt restructuring (the so-called PSI) and the associated debt interest payments. In contrast, the predictions regarding output and unemployment were far away from actual outcomes. IMF's first review estimated that in 2013 GDP would be lower by about 3.5 per cent relative to its 2009 level. The actual outcome was far worse: in 2013 GDP was about 22 per cent lower than in 2009. The same over-optimistic prediction was made about the unemployment rate, which was predicted to be 14.3 per cent in 2013, but was actually 27.3 per cent.<sup>36</sup> Why have the results, with respect to such crucial indicators as the level of GDP and the

unemployment rate, been so dismal? Could it be that the Greek government did not implement the reforms proposed by the Troika with due diligence?

At the Troika's insistence, and with great reluctance, policymakers in Greece engaged in a series of fiscal and structural reforms. Regarding the former, and beyond the numerical target for the budget deficit, a key ingredient under the MoU was a reduction in the number of (wider) public-sector employees. By June 2014 the total number of public-sector employees had been reduced by about 160,000 (of which about 85,000 were permanent public sector staff and about 75,000 were on short-term contracts) – a reduction of about 19 per cent relative to their total number in 2010. Further cuts in the number of public-sector employees are necessary according to agreements with the Troika, but the IMF (2014) believes that Greece appears to be on track to meet its target. Another key "qualitative" target was to increase the efficiency of tax administration and to reduce tax evasion. There were improvements with respect to tax administration, but these were hampered, among other things, by "continued political interference in operations" (IMF, 2014). The failure to develop an efficient system of tax administration has kept tax evasion at a high level, has necessitated a – larger than planned – increase in tax rates to meet deficit targets, and has prevented the needed reallocation of resources from the tax-evading non-traded sector to the more tax-compliant traded sector, thus stifling the needed expansion of exports that was necessary so that the closure of the current account deficit comes via export expansion rather than import compression due to lower aggregate income.

Regarding structural reforms, since the crisis, Greece has had one of the largest improvements on the World Bank's Doing Business indicator and the OECD's overall Product Market Regulations index (IMF, 2014). However, the improvements were from a low base, and under both indicators, Greece still is seriously underperforming relative to the eurozone average. Furthermore, the Troika is still waiting for substantive action regarding the implementation of previous reforms referring to the

36. As a result, Greece's public debt and (negative) net foreign investment position as percentages of GDP turned out to be higher than the predictions despite the PSI in 2012.

opening up of regulated professions and further liberalization and cost-reducing reforms for a number of professions (e.g. lawyers, mediators, pharmacists, engineers, actuaries, electricians and chartered valuers).

As described earlier, the labour market was the main recipient of deregulatory fervour since the crisis started. Some indicators are recalled here which give some sense of the reforms undertaken: (i) OECD's synthetic EPL indicator (EPRC\_V3) declined from 2.85 in 2008 to 2.41 in 2013 – the corresponding numbers for the average of the EU15 were 2.64 in 2008 and 2.52 in 2013; (ii) the (nominal) value of the unemployment benefit was cut by 22 per cent relative to its 2009 value, whereas the proportion of those receiving unemployed benefits among those registered as unemployed decreased from 33 per cent in January 2008 to 16 per cent in January 2014; (iii) the MW declined by 22 per cent for persons at least 25 years old, and 32 per cent for those less than 25 years old; and (iv) average gross worker's earnings fell by 25.2 per cent between 2009 and 2013, whereas the unit labour cost of the business sector decreased by 23.9 per cent during the same period. In addition, there were significant cuts to social welfare benefits, with pensions taking a big hit (by more than 20 per cent on average, and more than 40 per cent for the highest pensions), whereas the gross average replacement rate at retirement is expected to drop by 20 percentage points in 2020 (from 67.9 per cent to 48.1 per cent).

Yet, and despite the significant labour market reforms already implemented and which have led to large declines in wages and unit labour costs, the Greek government has been unable to deliver on many labour market reform commitments – which were agreed with the Troika – due to their perceived political cost. Chief among the reforms that still need to be implemented is the removal of excessive restrictions that raise the cost of doing business and inhibit the establishment or expansion of larger-sized firms; these relate to collective dismissals and industrial action. Under current arrangements, disputed collective dismissals are de facto not allowed, since they still require the approval of a political appointee (until recently it was the Minister of Labour but now it is the Labour Ministry's Secretary General) who has proven unwilling to grant it, thus forcing companies to offer very high voluntary severance packages or resort to bankruptcy. Greece still remains an outlier in the EU in prohibiting lockouts, even as a defensive tool for employers during labour negotiations. The Greek government has promised that the necessary legislative changes to bring the framework in line with best practice in the EU will be ready by end-October 2014.

It is certainly possible – but debatable – that had the Greek government implemented all of the Troika's recommendations, the investment climate would have improved sufficiently to spur investment and job creation, and bring the evolution of GDP and unemployment closer to the 2010 predictions. However, as argued earlier, neither theory nor empirical evidence is unequivocal about the possible effects of the labour market reforms which Greece has not yet implemented. Moreover, it is known that the (possibly beneficial) effects of structural reforms may take a long time to materialize – certainly far longer than the effects of restrictive budgetary policies, especially if they are applied concurrently with a credit crunch. Thus, scepticism remains as to whether a faster implementation of reforms would have *already* registered in substantially better GDP and employment performance. Nevertheless, it cannot be precluded that, once the restrictive budgetary and credit policies are lifted, the structural reforms already implemented and those currently being implemented would permit a faster growth in output than otherwise.

In response to the scale of real income declines, a host of haphazard policy initiatives were undertaken to soften the impact of the crisis on the most vulnerable, and to help the unemployed find work. However, it is not clear that there has been any coordination between different policymakers so as to avoid the clash of the objectives of reform pursued in one area with those of other reforms. As a result, inequality and poverty indicators have moved up steadily during the last five years, recording a sharp worsening in living conditions. Regarding inequality, both the Gini index and S80/S20 indicators suggest that inequality increased significantly during the crisis. The fact that the indicator S80/S20 records the highest increase (an increase of 11.9 per cent, against a 2.7 per cent increase for the Gini coefficient from 2008 to 2012) implies that the changes mostly affected the two ends rather than the middle of the income distribution. Regarding poverty, in 2013, 23.1 per cent of the population were below the poverty threshold. The standard poverty line (60 per cent of median income) for a single-person household decreased from €6,480 (annual earnings) in 2008 to €5,708 in 2012, and to €5,023 in 2013 (ELSTAT, 2014). At the same time, there was a steep rise in long-term unemployment and in the proportion of jobless households – in the first quarter of 2014, 19.4 per cent of persons aged 18–60 were living in households in which no one was working.

Looking at poverty by age group, 24.1 per cent of the economically active population (18–64) were below the poverty line in 2013 after social transfers (18.7 per

cent in 2008). A noticeable change seems to concern the elderly (64+), who have improved their relative position. While in 2008, 22.3 per cent of the elderly were below the poverty line, in 2013 only 15.1 per cent were below it; this goes against the trend for all other age/social/educational groups, whose poverty rates have increased. This development reflects: (i) the fact that the declines in the lowest pensions (i.e. pensions less than €700 per month) were far less than the declines in average and minimum wages, and in unemployment benefits; and (ii) the steep rise in long-term unemployment and in the proportion of jobless households. It also reflects the large, and growing, political power of the elderly/pensioners; this is due both to their large, and growing, population share, but also to the fact that they overwhelmingly vote for the two political parties that have ruled Greece over the last 40 years.

The substantial progress that has been achieved in the reform of the pension system since 2010 has increased its viability, but it still remains highly fragmented with pension rules differing across population groups for no apparent reason, and it relies heavily, and increasingly, on transfers from the state budget. Given the latter feature of the pension system, and the fact that in many cases current wages for young university graduates are

lower than the pensions currently received by people with lower formal qualifications, budget-neutral changes which, for example, increase the after-tax incomes of the former group while lowering the incomes of the second group, may be desirable on both (intergenerational) equity and efficiency grounds.

The far-reaching reforms implemented in Greece over the past four years, and which should, in principle, eliminate a significant part of the stifling rigidities and perverse incentives that led to bloated sectors and prevented intersectoral wage and employment adjustment, have produced only a few signs of their intended effects so far (e.g. although GDP dropped by about 3.5 per cent in 2013, there was an increase in hiring relative to previous years – partly aided by ALMPs/public employment schemes). Perhaps this is understandable, since structural reforms have a long gestation period, and their (initially, small) effects may be swamped by the deflationary impact of the concurrent austerity. On the other hand, the fact that these reforms have been implemented with far greater fervour in the labour market than in the product market may allow entrenched business interests to maintain their political power and to use it to stifle the emergence of innovative firms which would challenge their dominance.

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